

# A STUDY OF ECONOMIC PLANS FOR INDIA

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## FOREWORD

Planning has assumed a great and ever-increasing importance in recent years. Indian thinkers and writers no less than Indian industrialists and administrators have given much thought to it and various plans have been published. The National Planning Committee under the Chairmanship of Pandit Jawaharlal Nehru, which was appointed by Sriyut Subhas Chandra Bose when he was President of the Indian National Congress, could not complete its work but collected a mass of material of great value to every one interested in the subject. The information so collected is being brought out in handy volumes by the Secretary of the Committee, Professor K. T. Shah. The Government of India has also taken a hand in planning. Certain leading industrialists of India published their plan about four years ago and Principal S. N. Agarwal published his Gandhian Plan and Sriyut M. N. Roy the People's Plan. A great deal of literature on the subject has already accumulated and continues to be added to. The volume in hand is a critical summary and review, in compact form, of all these plans and enables the reader to get a comprehensive view of the various plans. It is not necessary to agree with the author in the views he has expressed about the various plans to be able to appreciate the value of his work which gives in a short compass the outstanding features of the different plans and the criticism to which they lend themselves. I have therefore much pleasure in introducing this volume by Sriyut D. S. Nag of the Govindram Seksaria College of Commerce, Wardha [now of the Govindram Seksaria College of Commerce & Economics, Jubbulpore], to the reader who will find it interesting.

WARDHA

11th April, 1948

RAJENDRA PRASAD

pattern of Indian economy which would emerge as the result of its successful implementation. Although this book is not the picture of a plan or a system, discriminating readers will nevertheless discern in it certain fundamental principles which are applicable to planning under Indian conditions. With the critical analysis and comparative study of the different plans provided in this volume, each reader can draw his own picture of the ideal plan, fill in the contours himself and form his own synthesis. The purpose of this book is not to provide a ready-made plan but to set the reader thinking for himself—for, to stimulate widespread thought on the subject is indeed the first step in enlisting the intelligent and willing co-operation of the community in shaping a planned national economy.

Two historic events have supervened since the inception of these plans, for most of them were formulated before the partition of the country and the dawn of Independence. The former has profoundly affected the entire Indian economic situation while the latter is bound vitally to influence the future. Though much has been written about the economics of partition, there has hardly been any attempt to assess the impact of partition on the problem and policy of national planning. The chapter on "Planning and National Unity" discusses this aspect of the subject at some length. The next chapter brings the book up-to-date by examining the New Industrial Policy of the Union Government, its inception, modification and final crystallization during the year. The concluding chapter discusses Planning in Free India and looks ahead to the future.

I am deeply grateful to Dr Rajendra Prasad for blessing my work. His gracious foreword to my previous book, *Imperialisms in South-East Asia*, encouraged me to write the present volume. I am also greatly obliged to Acharya S. N. Agarwal, Principal of the Govindram Seksaria

College of Commerce, Wardha, whose Gandhian Plan is a significant contribution to Gandhian economic ideology and whose abiding interest and faith in planned economy on Gandhian lines has always been a source of inspiration and guidance to me. I acknowledge with pleasure my indebtedness to my students, whose Planning Study Circle thrashed out for me the salient features of the Bombay, the People's and the Gandhian Plans. And lastly, I must mention that without Shri S. C. Basal's unfailing co-operation and my wife's constant help, my task would have been indeed very difficult.

JUBBULPORE

D. S. NAG

1st January, 1949



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## CHAPTER I

### THE NATIONAL PLANNING COMMITTEE

On the initiative of the then President of the Indian National Congress, Sjt. Subhas Chandra Bose, a conference of the provincial Ministers of Industries and their advisers was held in Delhi on the 2nd and 3rd of October, 1938. This conference came to the conclusion that the problems of poverty and of unemployment, of national defence or of economic regeneration in general, could not be solved except through large-scale industrialization. This conference, for the first time in the history of Indian Economics, recognized the need of a comprehensive scheme of national planning, and in one of its resolutions specifically stated that the scheme should provide for the integrated development of heavy and key industries, medium-scale industries and cottage industries, keeping in view our national requirements and resources, as also the peculiar circumstances prevailing in the country.

In order to implement its decisions the conference appointed a Planning Committee. Without going into details about the constitution and personnel of the various committees and sub-committees, it will suffice to say that under the dynamic and inspiring chairmanship of Pandit Jawaharlal Nehru and with the veteran economist Prof. K. T. Shah as General Secretary, the National Planning Committee opened a new chapter in the economic history of India. It was the very first attempt of its kind on the part of any official or non-official body to examine the fundamental economic problems of the country and to draw up a co-ordinated plan for our national economic regeneration. We may leave out, for the purposes of our present study, the organizational aspect of the Committee or the hazards and difficulties which faced it from the very start. We must, however, mention that the Second World War demarcated the work of the National Planning Committee into two distinct phases : pre-war and post-war. In the post-war period, new problems and complications invaded the economic life of the country already convulsed by the tremendous impact of a global war ; and the Government as well as industrialists

and political parties began to formulate and publicize their own separate plans for the reconstruction of the country. The National Planning Committee had therefore a very delicate task to perform in mobilizing public opinion in the chaos and confusion created by the competing plans with their conflicting ideologies. We shall discuss below some of the fundamentals of economic planning as accepted by the National Planning Committee.

### **The Objectives**

There is at present a bewildering multiplicity of counsel about planned economic development. Some plead for increased production, while others emphasize equality of distribution. If one school of thought considers agrarian reform as the supreme need of the hour, another school prescribes massive industrialization as the only solution of the basic problem of poverty. The National Planning Committee however defines planning thus : "Planning under a democratic system may be defined as the technical co-ordination by disinterested experts, of consumption, production, investment, trade and income distribution in accordance with social objectives set by organs representative of the nation. Such planning is not only to be considered from the point of view of economics and the raising of the standard of living, but must also include cultural and spiritual values and the human side of life." Social justice is the very essence of sound and acceptable national economic planning. Equitable distribution should go hand in hand with augmented production. The resolution on Fundamental Rights adopted at the Karachi session of the Indian National Congress enunciated for the first time the economic policy of the Congress, whereby it was laid down that the organization of economic life must conform to the principles of social justice, to the end that it may ensure a decent standard of living. Pt. Nehru in his inaugural address to the National Planning Committee stressed that any movement for large-scale planning of various types of industries and related activities should have a definite objective. The National Planning Committee defines this objective as "the establishment of an egalitarian society in which equal opportunities are provided for every member for self-expres-

sion and self-fulfilment and an adequate minimum of a civilized standard of life is assured to each member so as to make the attainment of this equality of opportunity a reality."

The National Planning Committee was fully conscious of the predominantly rural character of the Indian economic situation. Therefore it adopted the resolution submitted by its Rural and Cottage Industries Sub-Committee, which while taking cognizance of the fact that a national plan for India would necessarily aim at securing the welfare of the community as a whole, definitely laid down that in view of the fact that the masses living in the villages constitute nearly ninety per cent of the entire population and form the backbone of the nation, their well-being should be the main concern of the State and the primary objective of all national planning.

### The Means

As the mere setting out of objectives is not enough, the Planning Committee also suggested specific means to achieve these ends. Inevitably, the first necessity for the execution of any type of planning is a national authority with plenary powers to give effect to its schemes. It is almost a truism to say that complete political freedom and independence for a country is essential for planning its national economy. The sovereign authority of the State should be entirely free from outside interference. If a world union of free and equal nations comes into being, it is quite possible that some part of the sovereign authority of each state may be voluntarily surrendered in the interest of international economic harmony. But the development of a country can never be incompatible with international understanding, provided the latter is based on the principle of justice. Doubts may however arise about the composition and character of such a State which can be either Fascist or Socialist or democratic. The Chairman in his opening address at the third session of the General Committee held in May, 1940, thus described the type of the State in view: "We are aiming at a free and democratic State, in which the fundamental rights of the individual and the group—political, economic, social and cultural—will be guaranteed, and the corresponding duties and obligations laid down. The State will be progressive and will uti-

lize all scientific and other knowledge for the advancement of the people as a whole and for the promotion of their happiness, material as well as cultural, and their spiritual well-being."

### The Role of the State

The task of planning the national economy cannot be divorced from the national freedom movement. The two act and react on and therefore condition each other. Pt. Nehru thus aptly described the relation between national planning and the freedom movement : "The national freedom movement has affected the life of the people in many respects. The Committee should bear in mind that one of the fundamentals of success is that it should keep in touch with the movement. Otherwise it would lose itself in the backwaters of unreality." The Planning Committee therefore has consistently kept itself in touch with the national struggle for political emancipation. In respect of the role of the State in national planning it adopted the resolution on fundamentals passed by the Karachi session of the Indian National Congress. This resolution constituted its economic will and testament. It laid down that the State shall own or control all key industries and services, mineral resources and railways, waterways, shipping and other public utilities and that this principle shall be extended to other large-scale industries which are likely to be monopolistic in character. Wherever private enterprise owns and manages an industry the State should take all necessary steps to secure compliance with its basic policies and with the objectives of its over-all plan. The resolution also stressed the imperative need for ensuring a fair return for the industrial worker and recommended that the same principle should be extended to agriculture and the host of subsidiary industries associated with it. Broadly speaking, the State was given adequate authority for owning, controlling, managing or otherwise regulating the different sectors of national economy in order to further the attainment of the objectives of the plan. As regards the agency to act on behalf of the State in state-owned industries it suggested that an autonomous public trust should be created which would ensure public owner-

ship and control but at the same time eliminate the defects arising from public control over industry. The Committee also adopted the principle of fair compensation to the owner in case a private industry is taken over by the State.

### Cottage Industries v. Large-Scale Industries

There is extreme diversity of opinion among economists and industrialists about the role of cottage industries in the planned economy of our country. Not a few maintain that the conflict between cottage and large-scale industries is inherent and unavoidable. Controversy has raged fast and furious on this issue. Congress policy, as is well known, has always shown a profound and unmistakable bias towards the development of village and cottage industries. But there appears to be nothing in Congress policy which may be said to militate against the development of large-scale industries provided such development does not smother village industries. When the Congress Working Committee resolved in July, 1938, to set up an expert committee to explore the possibilities of an All-India Industrial Plan, the question was raised how far Congress is consistent in its policy of industrialization in view of its special emphasis on cottage industries all along. Sjt. Subhas Chandra Bose, the then President of the Congress, made it clear in his opening speech at the Industries Ministers' Conference that in the world as it is constituted today, a community which resisted industrialization had little chance of survival. Nevertheless he emphasized, "I should like to make it perfectly clear that there need be no conflict between cottage industries and large-scale industries. Such conflict, if any, arises only out of misunderstanding. I am a firm believer in the need of developing our cottage industries though I also hold that we have to reconcile ourselves to industrialization." He cited the example of certain industrially advanced countries in Europe where a large number of cottage industries still exist and thrive. Explaining Congress policy towards industrialization, he said, "Industrialization does not mean that we turn our back on cottage industries. Far from it, it only means that we have to decide which industry should be developed on a cottage basis and which on a large-scale basis.

of the agricultural policy of the National Planning Committee. The sub-committee in its final report also recommended the organization of collective farms on culturable waste lands and other lands acquired by the State. It reiterated its belief in co-operative farming in which private ownership of land would be permitted but the distribution of produce would be determined by the contribution made by each member of such co-operative farms. The State would also be required to maintain special farms for experimental, educational or demonstration purposes. The sub-committee also recommended special types of collective farms which could be operated in the common interest of the whole village and the produce, after meeting all dues and expenses, made available for the general welfare of the village. Besides co-operative farms, collective farms and state farms, the sub-committee also visualized farms owned by individual cultivators. Individual initiative and enterprise would be permitted but would be so regulated as not to come into conflict with the collective interest. But it would not countenance any type of intermediary like the Taluqdar or the Zamindar. It recommended the purchase of their right and title to the land by granting them reasonable compensation. However, for the transitional period it recommended a progressive tax on higher agricultural incomes on the model of the income-tax.

The River Training and Irrigation Sub-Committee recommended the establishment of a National Water Resources Board which would co-ordinate and correlate all activities concerning irrigation, navigation, flood control, river management, hydro-electric power and the provision of drinking water. An inter-provincial State Commission was also recommended for reconciling the various interests and rival water claims. The need for research and investigation into the extent and availability of sub-soil water resources was also emphasized. A comprehensive scheme for a co-operative organization for controlling and regulating water supplies was recommended for areas where the irrigational interests are considerable. The village communities were to be entrusted with the upkeep of local or minor irrigation projects.

The Animal Husbandry and Dairying Sub-Committee emphasized the need of making the cow an economic proposition by reducing the size of the present cattle population, by increasing the yield per animal and by other means. The principle of breeding pedigree cattle on a regional basis also received the Committee's approval. The goal of animal husbandry was the breeding of dual-purpose animals serving the twin needs of the Indian farmer for draft and milch cattle. The Committee proposed the adoption of the recommendations made by the Bombay Cattle Expert Committee of 1939.

The State was also to step in and accept responsibility for the conservation of soil and of forests. The Committee dealing with this subject suggested a land utilization survey to determine the area actually available and recommend ways and means for bringing it under cultivation. A statutory organization to be called the Land Development Board was to be established both at the Centre and in the provinces for supervising soil conservation measures. A number of measures were suggested such as contour-ridging, terracing and levelling of fields, afforestation, etc. Forests being a national asset, the State was to assume responsibility for conserving and exploiting them in the national interest. Privately-owned forests were to be acquired by the State. The forest policy in general was to be so regulated as to serve the industrial, climatic and other essential needs of the country.

In the field of rural finance, the need of drawing a distinction between short-term and long-term finance was pointed out by the relevant sub-committee. Co-operative land mortgage banks and state-aided rural banks were to be organized to supply long-term credit to the agriculturist for productive purposes. Short-term loans were to be provided by co-operative societies or other similar agencies, controlled by the State, against commodities or mortgages of crops. A chain of public warehouses for storing the produce of the cultivator was also strongly recommended.

## CHAPTER II

### “ THE BOMBAY PLAN ”

Nineteenth century Liberalism was an attempt to develop an economic order based on private enterprise uninhibited by governmental interference. Enlightened self-interest working within a system of free competition was supposed to result in plenty for all. State control was deemed superfluous if not injurious. Our grandfathers believed that private enterprise and unrestricted competition would do all that was needed for maintaining equilibrium in economic life. But this doctrine of *laissez-faire* lost its validity and prestige during the War of 1914–1918. The exigencies of national defence involved greater and closer co-operation between the State and private enterprise ; while in the post-war period the growth of economic nationalism led to increasing State intervention in the economic sphere. However, though the doctrine of *laissez-faire* went by the board, State intervention in economic life was neither thorough-going nor complete. Piecemeal governmental interference instead of solving the complex economic problems only put the system further out of joint and aggravated the malaise. Thus did arise the general demand for a planned national economy, comprehensive in its scope, vigorous in its control and scientific in its approach. The concept of planned economy is thus in a way itself the offspring of *laissez-faire*. Whether in the Western European democracies or in the United States of America, planning was attempted within the four corners of a capitalistic economy, and therefore it could not develop to its fullest extent. The spectacular success of the Soviet Russian experiment, however, first revealed its dynamic possibilities and created unbounded enthusiasm for economic planning throughout the world. The almost miraculous changes that it wrought in a notoriously backward country like Russia within such a short period of time set people searching for a solution to the fundamental problem of all modern economics—the paradox of poverty in the midst of plenty. Thus did planning come to be almost a philosophy of life and begin to be

adopted by the many.

In our own country, however, people held a different view about planning, for our economic context was different if not unique. We were a nation abundantly endowed with material and human resources, but industrially most backward and undeveloped. Consequently all attempts at planning in our country were in the direction of industrial development. That was why Sir M. Visvesvarayya, author of *A Planned Economy for India* and pioneer of planning in India, concentrated on industrial development. The National Planning Committee, appointed under the authority of the Indian National Congress, was another agency charged with the task of drawing up an all-embracing plan for national economic regeneration but political exigencies interrupted its work. It is to the credit of the eight eminent Indian businessmen, Sir Purshottamdas Thakurdas, Mr. J. R. D. Tata, Mr. G. D. Birla, Sir Ardeshir Dalal, Sir Shri Ram, Seth Kasturbhai Lalbhai, Mr. A. D. Shroff and Dr. John Matthai, that they placed before the country a bold project for a planned economy for India.

*A Plan of Economic Development for India*, or the "Bombay Plan", as it has come to be currently known, is a fifteen-year plan for the economic development of India to be given effect to in three successive five-year stages, at a cost of Rs. 10,000 crores. The planners set before themselves the specific objective of raising the *per capita* income of the community "to such a level that, after meeting the minimum requirements, every individual would be left with enough resources for enjoyment of life and for cultural activities". The Plan was based on certain assumptions. The planners assumed, for instance, that on the termination of the War or shortly thereafter, a National Government would come into existence at the centre which would be vested with full powers in economic matters. Their second assumption was that the future Government of India would be of a federal type having jurisdiction over the whole country, at least in economic matters. The Plan aimed at doubling the present *per capita* income within a period of fifteen years, by doubling the agricultural output and raising that of industry to five times the present level.

The development of basic industries was given top priority, for the authors realized that the inadequacy of the power supply and the lack of capital goods retarded the development of India's industrial resources. The list of basic industries included power, electricity, mining and metallurgy, engineering and machinery, heavy chemicals, armaments, transport and cement. Nor were the planners unaware of the hardships which might be caused by the priority given to the basic industries and the consequent curtailment in the production of consumption goods. Therefore, they held out the assurance that "as far as is consistent with planning, the free choice of consumers in respect of consumption goods should suffer no restriction." There was enough scope for small-scale industries to produce sufficient consumption goods to avoid shortage of essential commodities. There was no reason why cottage industries could not function side by side with large-scale industries and in complete harmony with them. The Plan proposed the investment of capital to the extent of Rs. 4480 crores in large-scale and small-scale industries.

Although the main emphasis of the Plan was on industrialization, agricultural development also received its due attention. The Plan aimed at increasing our agricultural production by 130 per cent in order to feed our own population adequately. In the initial years no large-scale export of agricultural produce to foreign markets was contemplated. This would have necessitated re-allocation of the acreage under different crops. The most important reform proposed was that of increasing the size of agricultural holdings by means of consolidation and co-operative farming. Even if some measure of compulsion was deemed necessary, it was to be exercised with discrimination. Liquidation of rural indebtedness by means of conciliation was to be effected through Co-operative Societies. For soil conservation and other permanent improvements to land, a sum of about Rs. 200 crores was provided as capital outlay in the budget of the Plan. New irrigation projects were also suggested which would increase the irrigated area by 200 per cent at a capital cost of Rs. 400 crores. The capital required for agricultural development is detailed below :

		Non-recurring (In crores of rupees)	Recurring
Soil Conservation, etc.	..	200	10
Working Capital	..	..	250
Irrigation Canals, etc.	..	400	10
Wells	..	50	..
Model Farms ..	..	195	130
		<hr/>	<hr/>
Total	..	845	400
		<hr/>	<hr/>

An increase in the volume of industrial and agricultural production would result in increased all-round economic activity and brisk internal trade which in turn would necessitate corresponding expansion of the means of transport, particularly railways, roads and coastal shipping. To the total railway mileage of 41,000 miles in 1938-39, it was proposed to add 21,000 miles at a cost of Rs. 434 crores, with an annual recurring expenditure of Rs. 9 crores. This would mean an increase of 50 per cent over the existing mileage. It was also proposed to double the existing 300,000 miles of roads within the period of fifteen years. The road development programme aimed at connecting all important villages with the main highways of trade. The Plan proposed to spend Rs. 300 crores on roads plus Rs. 35 crores for maintenance. The reconstruction of existing roads would cost about another Rs. 113 crores. Thus the transport budget would be as follows :

		Non-Recurring (In crores of rupees)	Recurring
Railways	..	434	9
Roads (new construction)	..	300	35
Roads (re-construction)	..	113	..
Ports	..	50	5
		<hr/>	<hr/>
Total		897	49

For the successful execution of a comprehensive plan of economic development, a large cadre of trained personnel is essential. The importance of the role of surveyors,

research workers, technicians, economists and supervisors in planning can be seen in Soviet Russia where in 1939 more than 96 lakhs of the Soviet intelligentsia was working in the planning administration. The need for trained personnel would be greater in India where illiteracy is the rule rather than the exception. Hence the Bombay Planners chalked out a comprehensive educational plan. Adult education was to be the first objective of the educational drive and would cost about Rs. 99 crores. The aim was to convert 200 million illiterate adults into educated citizens conscious of their rights and duties in a democratic State. According to the Plan, primary education was to be made compulsory for all boys and girls between the ages of six and eleven. It would cost the public exchequer Rs. 86 crores in non-recurring and Rs. 88 crores in recurring expenditure. The Plan also provided for higher (University) education, technical and scientific training and research work, which would cost on an average another Rs. 20 crores as recurring expenditure. Medical aid, public health and sanitation and housing were also given their due place in the Plan.

Finance may be said to be the sinews of all planning. The acid test of the planner's skill and wisdom is in finding the wherewithal for the execution of his plan. An unscientific approach to the problem of finance may itself jeopardize the successful execution of the plan. Planned finance is therefore the *sine qua non* of planned economy. The Bombay Planners, who are experienced financiers and industrialists themselves, seem to have taken extraordinary care in drawing up the budget for their Plan. They have classified the sources of finance into two categories ; external and internal. We give below a summary of their budget.

(In Crores of Rupees)

*External Finance :*

Hoarded wealth of the country,			
mainly gold	..	..	300
Sterling Securities	..	..	1,000
Favourable balance of trade	..		600
Foreign borrowings	..	..	700
			<hr/>
Total	..		2,600

*Internal Finance :*

(In Crores of Rupees)

Savings .. .. ..	4,000
Created money .. .. ..	3,400
<b>Total ..</b>	<b>7,400</b>

Explaining their policy regarding finance the authors of the Plan say, "In a planned economy we are primarily thinking in terms of commodities and services. Money or finance therefore is completely subservient to the requirements of economy as a whole." This explains their proposal for financing the plan through 'created money'. They believe that 'created money' would increase the productive capacity of the nation and ultimately repay itself. The planning authority, however, was to have full control over the various sectors of planned economy in order to prevent the prices from spiralling upwards and thus frustrating the entire design.

**The Social Pattern**

Planning is after all a means to an end. Therefore, all our efforts in the direction of a planned economy must be conducive to and consistent with the end. If the end itself is vague all our efforts would be in vain. The social and economic patterns the planners set before themselves serve as their guiding principles and prevent confusion in conception as well as anarchy in execution. A precise definition of the ideals of planning inspires confidence in the public and prepares it psychologically for making the sacrifices inevitable in every type of planning. Thus the authors of the Bombay Plan in their Second Brochure discuss the type of society which they visualize at the end of their fifteen-year Plan. The Plan lays down certain basic principles which are to shape the evolution of the economic organization. Today every country has to choose between a socialist and a capitalistic economy. But according to the authors of the Plan, capitalism today has been transformed almost beyond recognition by direct state intervention. Similarly, socialist economy has been modified by the absorption of certain

capitalistic ideas. As a result of these developments, they contend, the distinction between capitalism and socialism has lost much of its significance from a practical standpoint. Therefore the Plan advocates a judicious combination of capitalistic as well as socialistic economy. It has evolved a compromise formula which provides sufficient scope for individual initiative and enterprise, safeguards the interests of the community and entrusts the State with the responsibility of regulating the economic life of the country. The Plan thus claims to have combined social planning with individual freedom. The authors firmly believe that planning is not inconsistent with a democratic organization of society. Rather is it their contention that planning would be more successful when every individual's contribution and co-operation, which is indispensable, came forth voluntarily and not under compulsion. But at the same time the Plan makes it incumbent on the State to run the government of the country in such a way—with the consent of the people, of course—as to ensure a minimum standard of living for all and an equitable distribution of income. The first objective would be achieved by the following measures :

- (1) Provision of full employment.
- (2) Increase in efficiency.
- (3) Improvement in urban and rural wages.
- (4) Stability of agricultural prices.
- (5) Reform of the land system.

The second objective was to prevent gross inequalities in the incomes of different classes and individuals by means of death duties, reforms in the systems of land tenure, decentralization of the ownership of the means of production and State control and ownership of industries. But the Bombay Planners are not in favour of the arbitrary and absolute abolition of the inequalities of wealth and property or the potential sources of income because they deem it desirable to leave enough scope and incentive for advancement for the individual after ensuring him a minimum standard. Thus limited State control over the different sectors of the national economy and free scope for the truly enterprising individual would appear to be the twin foundations of the economic order envisaged by the Bombay Plan.

### The Role of the State

The enforcement of the principle of a minimum standard of living for everybody inevitably implies State intervention in the economic life of the country. The authors of the Plan have taken for granted that the jurisdiction of the Central Government would extend over the whole of India, at least in economic matters. They admit that State intervention is inherent in planning. "It is inevitable that in executing a comprehensive plan of economic development, the State should exercise in the interest of the community a considerable measure of intervention and control." Besides co-ordinating general economic activities, managing currency and public finance and protecting the economically weaker classes, the State would have to assume a few more positive functions. These have been classified into three categories: (i) Ownership (ii) Control and (iii) Management of certain economic enterprises. Of these three functions, according to the Plan, the control of economic enterprises is the most vital for achieving the largest quantum of social welfare. The State however was to own only those industries in which money was invested from the public exchequer. The State could relinquish ownership of certain industries after a stated period and retain only its powers of control. The State could also exercise management over certain enterprises in the interest of the public. The Plan however left it to the discretion of the planning authority to decide what type of State intervention was required in a particular economic enterprise. The Plan also recommended the continuance of war-time controls where necessary. But they were to be more efficiently co-ordinated and more systematically administered. Having given a brief summary of the Bombay Plan, we shall next critically examine some of its main features.

### The Capitalistic Character of the Plan

In their zeal for maximizing over-all production, the authors of the Bombay Plan have overlooked the conditions under which alone production could be expanded. Their experience ought to have taught them that optimum production was incompatible with the capitalistic system, for under it production is for exchange and not for use. The profit

motive which acts as the incentive for production creates a hiatus between production and consumption and does not allow production to find its natural culmination in use. As long as 'the invisible devils' of profit, competition and effective demand are permitted free play, whatever be the increase in the volume of production it will not have the desired effect of raising the standard of living of the people. The nature as well as the volume of production are ultimately determined by the manner in which the purchasing power is distributed among the masses. With due regard to their emphasis on increasing production, it must be said that the authors of the Plan have failed in the task of ensuring the flow of the fruits of production to those who need them most. The planners have no doubt fixed the target of the *per capita* income, but they have not laid down any basic principles which would ensure the widest possible dispersal of purchasing power in the community.

Even a careful and sympathetic reading of the Second Part of the Bombay Plan, which deals with distribution and the role of the State, leaves the reader unconvinced of the soundness of the planners' views on the crucial issue of distribution. Their attempt at combining State ownership, State control, State management and restricted private enterprise may give one an impression of a harmonious reconciliation of conflicting interests. But permitting private enterprise to operate in one sector and trying to prevent it from throwing the other sector out of gear would only involve greater difficulties, heavier expenses and longer delays. A hybrid scheme of this nature may be accepted for the transition period, but to include private enterprise in a fifteen-year plan, especially when we are going to reconstruct the entire national economy, would mean giving an opportunity to capital and big business to entrench themselves more firmly in the economic life of the country. Instead, an attempt should have been made to eliminate them with all their paraphernalia during this very period of fifteen years.

The Bombay Planners have no doubt envisaged State ownership and control of certain industries, but they are not quite definite on the nature and composition of the State. By using the term 'National Government' they have con-

veniently by-passed the main issue, i.e., what type of Government should execute this Plan. The Governments of the United States of America or of England are no doubt national Governments, but can they be called full-fledged democracies ? Can they be considered competent, by reason of their character and composition, to execute any plan for the economic salvation of the common man ? The Plan is significantly silent on the character of the National Government. At the peril of offending certain quarters, it must be asserted that the National Government as envisaged by the planners cannot but be under the influence of big business and the money barons. It can well be imagined in whose interest such a State would exercise control over industry. In brief, the vital issue of the ownership of the means of production has been shelved by the authors of the Bombay Plan. The essence of planning lies not merely in setting up targets for increased production of goods and services but in evolving an economic system which will stimulate and augment our productive capacity and at the same time ensure the distribution of purchasing power among the masses as evenly and equitably as is possible.

### Agriculture v. Industry

In view of the peculiar economic conditions of our country, the obligation is laid on us to examine each and every scheme of economic development from the point of view of agriculture. Our goal should always be an ideal balance between agriculture and industry ensuring the fullest employment of our natural resources and man-power. However ambitious might be our plans for industrialization, agriculture is bound to remain our most important single occupation, even if functioning side by side with large-scale industries. The Bombay Planners apparently have failed to realize this fact as they have not accorded to agriculture the pride of place which is its due. They have been so obsessed by the idea of the unbalanced economy prevalent in the country that they have attempted to correct the disequilibrium in arithmetical fashion. According to their calculations the net income from industry and agriculture is Rs. 374 and Rs. 1,166 crores respectively. They propose to increase the income from

industry by 500 per cent, and that from agriculture by 130 per cent, in a period of fifteen years and thus achieve an approximate parity in the incomes of the two main sectors of the national economy. We most certainly want to correct the disequilibrium between agriculture and industry, but not at the risk of under-employment or over-employment of our resources. The Bombay Plan while laying down the ratio between agriculture and industry does not ensure the best possible utilization of our national resources. Rather, by limiting the increase of agricultural production to 130 per cent, they have unduly restricted the scope of agricultural development. They would discourage agriculture from producing for export while no such strangulating limitation was to be imposed on industry. It would almost appear that they wished to keep agriculture subservient to industry. There is no doubt that an excessive dependence of agricultural economy on non-food crops always brings into it an element of economic instability. But, at the same time, an undue emphasis on food crops makes agriculture less paying and prevents it from adjusting itself to the industrial development of the country. Well-developed farming is an adjunct of well-developed industry. Even in the interest of industrial expansion itself it is necessary to increase and ensure a regular supply of raw materials. Moreover, the agriculturist is not only a producer of raw materials; he is a consumer of manufactured goods as well. The larger his income as producer, the greater his capacity for purchasing the goods turned out by industry. We are afraid the Bombay Planners have not adequately recognized this mutual relationship and inter-dependence between agriculture and industry.

Consequently, agriculture has received but perfunctory treatment at the hands of the Bombay Planners. They have not made any provision for the cost of the consolidation of holdings. They have assumed that it can be achieved without incurring any extra expenditure. But past experience has shown that the co-operative method of consolidation which they advocate costs Rs. 2-5 per acre. On this basis, the consolidation of 35.4 crores of acres would cost about Rs. 82 crores in British India alone. Likewise no provision has been made for the liquidation of rural indebtedness on

the presumption that it could be achieved without any extra cost to the country. The Plan suggests the liquidation of agricultural indebtedness through the agency of Co-operative Societies and points out that the required finance may be available directly or indirectly from the savings of the money-lender class. The authors of the Plan seem to have taken the liberty of indulging in "book entry methods". They do not specify what economic measures they would devise to divert the money-lenders' savings to the co-operative banks or whether they are willing to use compulsion for pooling the resources of the money-lenders.

The Plan provides the very inadequate amount of Rs. 250 crores as working capital for introducing improved methods of farming. India has nearly seven lakhs of villages, each village having on an average a population of 517. The working capital would thus come to approximately eight annas per head per annum. It is passing strange how agricultural development on modern lines can take place in such a vast and backward country with such a small amount of capital per head. In drawing a picture of 'better seeds, scientific methods and improved implements' they have drawn more upon their imagination than on their experience of the agricultural conditions prevailing in the country.

Moreover, by ignoring the question of price parity, the Plan has done a great disservice to the agriculturist. No plan can ensure a national minimum to the individual without insuring fair prices for all commodities. Fair and stable prices alone can safeguard the interests of all sections of the society. Industrialization by itself cannot reduce glaring inequalities of income nor can it guarantee a reasonable standard of life to all. It may bring about some apparent improvement in the standard of living of the industrial worker. But without a comprehensive fair price policy it is hardly possible to ensure a just deal to the agriculturist within the capitalistic framework. The Plan does not envisage any such price structure and consequently it would only tend to accentuate the disparity in the standards of living of the different classes of the people and make the agriculturist relatively poorer.

### The Financial Aspect

Finance is the prime factor in the execution of any plan. Only an adequate and regular supply of investment capital can ensure smooth and uninterrupted progress in planning. The success of a plan largely depends upon the sources of its finance and the methods of tapping them. Mobilizing the financial resources of a country requires prudence as well as courage, and also the correct ideological approach to the whole business of planning. Human labour is the biggest reservoir of capital and all existing capital is but 'crystallized labour'. The crux of the problem is how to fire the whole nation with a new vision and a new faith. All subsequent problems are then rendered capable of solution. We fear the Bombay Plan has failed to appreciate the inspirational value of the ideal behind a plan. The hoarded wealth and the future savings of the people will voluntarily be made available for investment provided the people are assured that their sacrifices will not be in vain and that they are themselves the real beneficiaries of the Plan.

Let us now examine the sources of finance proposed by the authors of the Plan. The biggest item individually is the sterling securities amounting to Rs. 1,000 crores. In our opinion, the Plan is over-optimistic in this respect and although the amount of the sterling securities has increased since the publication of the Plan, there is no certainty that the whole of the amount or even a substantial part of it would be made available to India in a manner and at the time suited to the various stages of the Plan. We apprehend serious inroads into the sterling balances by attempts to scale them down and otherwise. Even if England decides to repay her sterling debt she will not be in a position to do so for a long time to come, in view of her post-war rehabilitation requirements. The recent Anglo-American Financial Agreement indicates to what desperate financial straits England has been driven as a result of the war. The members of the Indian Industrialists' Delegation have warned the nation against entertaining hopes of importing capital goods from England in any large measure. Our apprehension is that England will try to discharge her sterling obligations by exporting consumer goods to India. The mischief has already begun

and is bound to upset the financial calculations of the Bombay Plan.

Moreover, the value of sterling within the sterling bloc and outside would ultimately depend upon international monetary conditions. The Almighty Dollar may dictate its own terms as it has already done in the Anglo-American Agreement and England may be asked to liquidate her Sterling Debt within a short period. Sterling itself may suffer depreciation causing heavy real loss to our balances. Moreover, sterling balances are a reserve against the paper currency circulating in the country. At least a part of the reserve would have to be maintained and the remainder cannot be so easily detached from the currency in circulation. Above all, we cannot confidently bank upon a source which is in the control of an alien power. Sterling today has developed its own brand of politics over which we have no influence.

The Bombay Plan has been characterized as 'reconstruction through inflation'. Its authors proposed to 'create' money to the extent of Rupees 3,400 crores. It will not be too much to say that the Bombay Planners want to continue the era of inflation though with a different motive. They advanced the plausible argument: If we can find money for the War, could we not repeat the miracle in the peace? Thus they would rely on 'miracles' rather than on the sound and practical methods of realistic business men. Apart from abnormal psychological conditions generated by war, there are also certain economic abnormalities which make controls possible during war-time. Peace-time inflationary measures cannot count on the prevalence of such abnormal psychological and economic factors. "During war, the international link between prices is cut off. Every nation practically lives within a 'closed economy'. Trade is reduced to a minimum and is controlled. The nation puts up with all sorts of privations, because there is always the feeling that victory is the best reward for these sacrifices. No nation can, however, live on a war footing in peace time, not, at any rate, unless there is behind these controls an idealistic upsurge of the type the Russian Five-Year Plans had." We feel the Bombay Plan lacks this idealistic upsurge which

these factors and should have placed before the country at least a tentative scheme for switching the national economy from war to peace. They have overlooked altogether the question of demobilization and rehabilitation. Nor have they made any provision for social security schemes which are the corner-stone of planning in every progressive country. The Plan is also silent on the labour policy of the State. At the least they ought to have laid down a basic scheme for a national minimum wage, health and unemployment insurance and for workmen's compensation. In the absence of such a scheme the working class cannot be expected to extend its willing and whole-hearted co-operation in the execution and fulfilment of the Plan.

### CHAPTER III

## RECONSTRUCTION PLANS OF THE BUREAUCRACY

The inexorable urgencies of the Second World War compelled most of the nations of the world to drive their economic systems at top speed. This all-out effort brought into operation a number of factors not normally present in a peace-time economy. Mobilization of economic resources for defence involved gearing the productive system to war requirements ; but every nation knew that war was only a temporary phenomenon and with the cessation of hostilities the national economy would have to be brought back to a peace-time footing. This switching of industries from war to peace is attended by a number of intricate problems. Demobilization of military personnel and reconversion of industry to civilian purposes are two of the natural consequences of the end of war. Cancellation of war-time contracts implies a decline in the volume of industrial production and entails considerable changes in the industrial structure. The spectre of unemployment begins to haunt the nation which the State is always anxious to exorcise. Moreover, any sudden boom or slump in prices leads to anarchy in the contractual relationship of the creditor and debtor in general. It is the responsibility of the State to minimize the possibility of such a chaotic situation as far as is possible, the more so in the case of India where the vulnerable peasant class is always the first victim of violent price fluctuations. Besides these problems arising directly from the war and its aftermath, there were other long-term considerations also which prompted the Government of India to undertake the business of planning for the future. War-time declarations by the leaders of the United Nations had given an impetus to a world movement for the improvement of living conditions. In other words, 'freedom from want' had become the slogan of the common man. The movement had taken deep roots in India where the living conditions were exceptionally deplorable. Government was compelled to act by world opinion and force of circumstances rather than by a genuine desire to raise the standard of living

of four hundred million people. That this is no aspersion on the motives of Government but a statement of fact is proved by the subsequent abolition of the Planning and Development Department.

### Agricultural Policy

The overwhelming pressure of population on the land is the biggest brake on the progress of Indian agriculture. The cultivated area in British India in 1940-41 was about 214 million acres whereas the population stood at 295.8 millions. In other words, only 0.7 acre of land was available per head; while in Western Europe it was 2.5 acres and in the United States of America 2.6 acres per head. This has given birth to a number of complicated problems. Sub-division and fragmentation of holdings, low yield, occupational disequilibrium, malnutrition, rural indebtedness, famine and disease are the direct consequences of the un-economic pressure of population on agriculture. Unless this dead weight is lifted from agriculture, no scheme of rehabilitation will succeed. The problem is by no means peculiar to India. It had to be faced in most of the European countries at some time or other. The solution was found partly in increasing production from land. Large-scale industrialization and migration of population also helped to a great extent. A concerted effort was made to reduce the percentage of people engaged in agriculture. Thus, between 1885 and 1925, the ratio of agricultural population to total population in Germany fell from 42.2 to 30.5 per cent and similarly in Denmark, from 46.5 to 30.3 per cent. Agriculture in these countries would have remained over-burdened as in India had they not corrected their occupational disequilibrium through industrialization and other measures. The Kharegat Scheme and the Burns Memorandum on the technological possibilities of agricultural development have failed to take cognizance of the population aspect of the agrarian problem. No amount of capital, research or trained personnel would be able to rehabilitate Indian agriculture so long as the present pressure of population on it continues. Agricultural development schemes should not and cannot be treated in isolation. Agriculture

is after all one segment of the national economy and must, therefore, be treated as such in any scheme of national planning. The way in which the Bureaucratic Government set about planning agricultural development created serious misgivings in the public mind. Their motives were suspected; it was feared the real object of the administration was to set up agricultural expansion as a counterblast to industrialization and thus confuse the issues. This doubt was only confirmed by the Kharegat Scheme and the Burns Memorandum as we miss in them the recognition of the urgent need of relieving pressure on the land through industrialization.

The Bureaucratic scheme gave one the impression that the administration in our country stuck to the old orthodox view of the rural problem. Government considered agricultural development as mainly a question of persuading the farmer to adopt improved methods and utilize more water, more manure and better seeds. The Burns Memorandum deals only with technological possibilities, while the Kharegat Scheme advocates reorganization and expansion of agricultural research and education. Both the schemes emphasized only the technical side of agricultural development. They can hardly be considered as blueprints of a comprehensive plan for agriculture. "Such planning involves much more than attempts to improve the level of agricultural technique and in fact would take us in the direction of creating a rural economy and a social milieu, where better farming will have meaning only as an aid to better living."—(*Eastern Economist*, 5th January, 1945)

The very nature of the rural problem as well as our notions about it have undergone a fundamental change during the last three decades. Authorities on the subject have developed a broader vision so as to include the village way of life as a whole. Sir Manilal D. Nanavati, President of the Indian Society of Agricultural Economics, has very properly underlined this new vision in his book *The Indian Rural Problem*. The first and foremost essential of this new policy was that it must aim at an all-round improvement of the villager; it must be conceived on the basis of what may be called a new constructive sociology. Piecemeal efforts had

been tried and found wanting. Economic betterment, it is now realized, is only a part of constructive sociological reform. Life cannot be lived in compartments ; its problems cannot be dealt with in isolation from one another. Reform must touch the whole life of man and at all points. The bureaucratic schemes lack this broad vision and progressive approach to the rural problems of our country. We doubt very much whether such schemes could effect the desired improvement in the life of the villager as a whole. Haphazard tinkering may bring about a few changes here and there in this or that aspect of rural life, but these would fail utterly to infuse new life in the seven lakh villages of India.

The Indian Council of Agricultural Research has been doing considerable research work for the last one decade but the gap between the village farm and the research laboratory is still as wide as before. The Kharegat Scheme suggested a number of measures to revitalize agriculture but it did not work out any detailed programme which could be taken up immediately. That even a Committee of Experts like the one presided over by Sir Phiroze Kharegat could not produce a concrete scheme only indicates the constitutional incapacity of the bureaucracy to tackle our rural problems.

While some of the surplus labour at present engaged on land can no doubt be absorbed in large-scale and small-scale industries, the productivity of agricultural land itself should be increased to support more farmers in future. A more extensive and intensive cultivation of food or cash crops by itself is not enough. We must raise agricultural output by introducing new types of farming which call for more effective employment of labour and yield quicker returns. Such special types of farming and allied agricultural occupations like market gardening, bee keeping, poultry and dairying would also help to correct the nutritional deficiencies of the farmer. Neither the Kharegat Scheme nor the Burns Memorandum has suggested the possibilities of such development for raising the income and the standard of living of the farmer. They have failed to appreciate the fact that whatever improvement is effected in agricultural technique, the yield per acre would continue to be low so long as we concentrate mostly on the production of cereal crops. The

more intensive the farming, the larger the income of the rural population. We can here cite the example of the Danish way of intensive farming. Today Denmark has 146 males employed in agriculture per one thousand hectares of arable and pasture land whereas the United States has 25, Canada 35, Great Britain 17 and France 13. Yet the *per capita* productivity in Denmark does not, qualitatively or quantitatively, lag behind that of any of the countries mentioned above. Government in their over-enthusiasm for technological improvements have overlooked the importance of the radical changes needed in the entire system of agriculture.

The Kharegat Scheme has estimated the capital expenditure required for carrying out its recommendations at Rs. 1000 crores. This does not include provision for expenditure on major construction works. Nor does it take into consideration the prospect of further expenditure resulting from new surveys. It admits that it is not the last word in agricultural planning and that it may have to be revised and amplified subsequently. Criticizing the financial aspect of the plan, the *Eastern Economist* in its leading article of 30th June 1944, remarked: "Such calculations cannot obviously have much scientific validity even as illustrative figures and coming as they do after the sharp attack on the calculations of the Bombay Plan which the Government spokesmen have allowed themselves to indulge in, they are almost unpardonably incomplete and misleading."

### Industrial Policy

In their statement on industrial policy, Government undertook the responsibility for creating certain prerequisites of industrial progress. According to Government, the development of transport facilities and power, survey of mineral resources and scientific and industrial research are the main prerequisites. Their approach to industrial development also was mainly technological. They did not propose to change the basic conditions and build up a new economic order which alone could release our productive powers, making a national minimum available to all. The halting and half-hearted approach of the bureaucracy to our economic problems is revealed by the following extract from the speech

The bureaucratic administration maintained an attitude of *laissez-faire* not only in the field of imports but also as regards foreign enterprise in our country. Government showed no desire to impose restrictions on foreign capital or technicians. Nor did Government announce what protection they proposed to give to the national industries against competition from foreign concerns firmly entrenched in this country with abundant financial and commercial advantages. Even in the period of 'discriminating protection', powerful 'India (Ltd.)s' had sprung up behind the Indian tariff wall. Foreign enterprise is bound to exploit the opportunities offered by the proposed industrial drive. Already leading industrial powers like the United States of America are showing a keen desire to participate in our industrialization. In order to safeguard indigenous industries, Government should have announced a policy of regulation of foreign enterprise. In the absence of a definite policy public suspicion of Government schemes was bound to increase. It has already been commented that an undefined field of economic activity like essential industries, public utilities, etc., was reserved by Government for State ownership or management with a view to accommodating foreign technical and financial enterprise.

Government no less shirked their responsibility for determining the location of industries. In his Report on the Location of Industry in India, the Economic Adviser expressed himself rather emphatically against the right of the State to determine location. Says he, "In a country like India it will be extremely dangerous for the State to arrogate to itself the right to determine the location of individual undertakings. The successful conduct of industries from the business point of view is of primary importance if India is to achieve the desired industrial progress." The dangers of excessive concentration of industries are so widely recognized that decentralization and regionalization have become the order of the day. Social, economic and strategic considerations demand a judicious and planned location of industry. How can a major question affecting the life of a nation as a whole be left to the mercy of "the business point of view"? Control over the location of industries is now

widely recognized as one of the legitimate functions of the State. Unregulated growth of industry resulting in social and economic evils would only prove to be a curse to the nation.

A bold national mineral policy is another prerequisite of industrial development. In all the voluminous literature published by our officialdom, we do not come across any reference to a national mineral policy. Mineral resources form the base for the superstructure of industrialization. A weak base can hardly support the weight of heavy industries. The recent war has revealed the flaws and defects in the industrial structure of our country. Scarcity of coal, for instance, almost paralysed certain vital industries during the war. The wasteful manner in which this valuable mineral is being exploited in this country has also frequently come up for public discussion. Large quantities of manganese, mica, chromate and other scarce or strategic minerals were extracted for the purpose of export. If the present rate of export of minerals continues, a time will soon come when the country will have exhausted its resources. If a genuine national industrial policy is to be implemented we should evolve and enforce a national mineral policy at the same time. The cardinal points of such a policy should be : (i) The minerals of the country should be exploited only by the nationals of the country ; (ii) the tariff policy should be shaped in such a way that the country is able to develop essential minerals even in the face of foreign competition ; (iii) the State should undertake a thorough geological survey and maintain a Mineral Research Board for supplying geological and other technical data to the public.

Nor was the bureaucratic plan of reconstruction quite explicit about the taxation policy as affecting post-war industrial development. Although the Finance Member in his Budget Speech (1946-47) promised to institute an enquiry into the taxation system of the country, the administration's plans in general gave one the impression that the war-time scale of taxation was intended to be retained for some years after the war. The fiscal structure which had been built up in a haphazard way during the war can hardly be considered satisfactory from the point of view of the highest

possible mobilization of our industrial potential. War-time fiscal policy has hampered our industrial development and left industries with meagre and inadequate reserves for re-equipment and replacement. Hence the fiscal structure has to be considerably modified to meet the requirements of an expansionist economy. The bureaucratic schemes do not contain even the germs of such a taxation policy.

Even as a buyer Government had not assured Indian industries its patronage of indigenous products. Government being the biggest consumer of commodities could provide the most direct incentive to industries through its purchase policy. In the long run it would have been paying proposition for Government to give preference to home produced goods. Even if it had to pay a little more for them, that would only have been in the nature of an indirect subsidy to the nation's industry. We do not find in the Government Statement on Industrial Policy even a reference to preferential treatment to home products. The Statement lays down that "subject to reasonable safeguards as to quality and price, Government will continue to encourage Indian industries by buying its products in preference to others." This proviso of 'reasonable safeguards as to quality and price' can however be so interpreted as practically to nullify the proposed preference to Indian products.

### Transport Policy

The piecemeal nature of Government planning is the greatest obstacle to envisaging a complete picture of its planned economy. In the absence of a full picture it is thus difficult to judge the soundness of its transport plans. We do not know what place transport occupied in its general scheme of planning. The extraordinary enthusiasm of the administration for priority to road construction work gave rise to misgivings in the public mind. It is held by some that the road programme was prompted by Government's intention to use it for absorbing demobilized military and technical personnel. Old and worn-out plant and machinery released by the military were also to be diverted to road construction. Priority to a road programme is

against the elementary principles of the economics of production. The capital and labour resources of a country should be so canalized as to conform to the principle of equi-marginal utility. Government itself admitted that it had but limited capital resources. Was it then sound economics to invest a large portion of this limited capital in road construction schemes which could not become self-paying for a number of years? Indian public opinion, therefore, rightly felt that the high degree of priority to road development under the plan was to be explained by the desire to provide employment to the demobilized soldier, to utilize unwanted and surplus machinery, to facilitate the sale of British goods in every nook and corner of the country and incidentally to find a convenient market for the massive post-war British motor car industry. The authorities were silent on the point as to how to raise the money amounting to Rs. 450 crores for a twenty-year road programme. The tax-payer had a right to know from Government how the proposed expenditure on roads was going to be met.

In the sphere of civil aviation, the policy of the administration was even more harmful to the interests of the country. The principle of 'the freedom of the air' was very cleverly sabotaged by dragging India into the Empire and Commonwealth Conference. British interests succeeded in reducing the International Air Conference at Chicago to a fiasco by replacing the 'freedom of the air' by the principle of reciprocity. How could India whose air services and aircraft industry are still in their infancy participate on a reciprocal basis with other countries?

The civil aviation plan made provision for the country to start air services without beginning to manufacture aeroplanes in the country. The scheme offered an excellent opportunity to British air interests to dump the Indian market with obsolete or war-worn machines and equipment. Government had prevented the development of the aircraft industry during the War and was none too anxious to promote it in peace-time. Air services and aerodromes without an indigenous aircraft industry is like a superstructure without a foundation. Unless we begin to manufacture planes in our own country, the theory and technique of aeronautics

will remain a closed book to us. We shall for ever have to depend on foreign countries for machines and technical personnel. From the point of view of defence a national aircraft industry is of supreme importance. Civil aviation functions as a nucleus for training pilots and crews and for the production of war-planes. The Indian Chamber of Commerce has protested against Government's omission of the aircraft industry in their civil aviation plans. It has urged the authorities to establish an aircraft industry in India at an early date to serve as a link in an Empire or larger, international scheme of aircraft construction, offer facilities for training and research and assist the rapid expansion of internal air services.

Considering India's geographical situation in any air route between Europe and the East, her continental area, population and possibilities of industrial and commercial development, the Government civil aviation scheme seems to be much too modest in its scope. It did not take a farsighted view of the requirements and possibilities of air transport in the country. It presumed that air traffic would remain in future the same as it is today. If our air services are efficiently managed it may be possible for them to transport vital machine parts, precious metals, perishable goods, urgently needed medicines, etc. as freight. Government did not envisage the development of air services in these directions and had therefore over-estimated the cost of their operation. The high cost of operating would restrict air facilities to the rich while what is needed is to bring down the level of rates and fares so as to make air transport available for passenger traffic as well as for despatch of commercial cargo.

Government's proposals also envisaged dual financial control over civil flying similar to that prevailing in the United Kingdom until very recently. Private capital was to be allowed to participate along with the State. Divided ownership would only result in divided responsibility and ultimately neither Government nor private enterprise could be held responsible. The Labour Government in England has already scrapped this anomalous arrangement and nationalized civil aviation.

Apparently the bureaucratic regime entertained little hope of a bright future for India in international air services. The reciprocity formula would not give any substantial share to India in the international field, for the development of internal services would take some time before they could be linked up with international air lines. Nor did Government discuss any form of co-ordination between the internal air services and the other means of transport operating within the country. Air transport must serve and be served by railways, roads, inland waterways and seaports. Although the problem of co-ordination may not arise for some time, the network of internal air services must be planned in advance in order to avoid the economic waste inevitable in unregulated competition between the different means of transport.

In short, Government proposed to develop civil aviation without at the same time starting an aircraft industry in the country. They seemed to be indifferent to or pessimistic about the future prospects and possibilities of the industry. Consequently they were timid and conservative in their approach to the problem of freight and would rather have the air services only as the rich man's luxury. Neither did it envisage the co-ordination of internal air services with other means of transport nor the possibilities of linking up the internal air lines with international air services. Dual financial control would have resulted in economic waste and undesirable competition, causing heavy loss and confusion in the transport system of the country.

Official plans which are so ambitious about railways and road transport have entirely neglected the inland waterways. One great advantage in canal transport is that equipment and personnel for its development are available close at hand and at economic rates. It is a pity that boats and country craft which suffered so much during the war owing to Government requisitioning policy should have been left out of their reconstruction plans. Government were anxious to eliminate competition between railways and motor transport but would permit both to crush canal transport. Government ought to have prepared a navigation scheme for canals. It is possible to deepen certain canals and link

## CHAPTER IV

### THE PEOPLE'S PLAN

The People's Plan was drafted by the Post-War Reconstruction Committee of the Indian Federation of Labour. Its framers claim that it represents labour's views on post-war development. The object of the Plan is to provide for the satisfaction of the immediate basic needs of the Indian people within a period of ten years. This objective is to be achieved by expanding production and by ensuring an equitable distribution of the goods produced. Therefore the Plan prescribes increased production in every sphere of economic activity. But its main emphasis is on agricultural development, since its authors believe that the purchasing power of the people cannot be raised unless agriculture, which is the biggest occupation in the country, becomes a paying proposition. Agriculture, it is argued, forms the foundation of a planned economy for India. Nationalization of land is therefore the first step in agrarian reform. "The entire land will have to be nationalized thus leaving no intermediary between the cultivator of the soil and the State." The Plan proposes the payment of compensation amounting to Rs. 1735 crores to the landowners, rent receivers, etc., in the form of 3% self-liquidating forty-year bonds issued by the State. The annual payments to be made by the State would come to about Rs. 60 crores. The Plan also recommends the compulsory scaling down of rural debts which are then to be taken over by the State. This would cost another Rs. 250 crores to the public treasury.

Apart from the nationalization of land and the compulsory scaling down of rural indebtedness, the Plan formulates two schemes for increasing agricultural production: (a) extension of the area under cultivation and (b) intensification of cultivation in the area which is already under cultivation. According to the Plan, during the ten-year period an additional hundred million acres of land could be brought under the plough in various ways. In support of this estimate the authors of the Plan quote Dr MacLagan Gorrie of the Indian Forest Service. For a more intensive

cultivation of the area already under the plough, the Plan proposes the extension of irrigation by about four hundred per cent in a period of ten years and the provision of manure and better seeds, which would involve an expenditure of about Rs. 750 crores. It also includes a scheme for collective and State farming. In the authors' own words, "the association of modern machinery with the process of agricultural production should be facilitated through the starting of State farms all over the country. There should be such a farm for about every eight to ten thousand acres of cultivated area and it should be equipped with modern mechanical means of cultivation, which it would be in a position to lease out to the peasantry in the neighbouring area." The farm should be manned by an able and efficient staff and an adequately equipped research institute should be attached to it. These farms should function as model centres for raising the educational and cultural level of the peasantry. The number of such farms would be about five thousand in all. While proposing the replacement of the existing individualistic small-scale cultivation by a system of collective farming, the framers of the Plan are of the opinion that the process of collectivization should be voluntary and gradual. The initiative for the 'collective attack', however, was to come from the State and the peasant was to be persuaded into recognizing the benefits of collective farming.

In the field of industry, the People's Plan gives priority to the manufacture of consumer goods. It is argued that as a large volume of demand for essential goods for the community remains perpetually unsatisfied, the goal of planned economy in industry must be to satisfy it first. The Plan emphasizes the importance of consumer goods industries in the following significant words : "It is indeed a little pathetic, and may even prove to be considerably harmful, to start with half-filled bellies and half-clad bodies thinking in terms of automobiles and acroplanes." The consumer goods industries include textiles, leather, sugar, paper, drugs and chemicals, tobacco, furniture, etc. The total capital to be invested in all these industries would be about Rs. 3000 crores. The development of basic industries like power,

minerals, heavy chemicals and machinery was to be subservient to the needs of the consumer goods industries. A sum of Rs. 2600 crores was proposed to be invested in the basic industries. All the new industries to be started during the period of the Plan were to be financed by the State which was also to own and control them. Private industrial enterprise was not to be banned altogether but was to be permitted to function subject to severe and rigid control by the State. In order to ensure continuity of production and fair prices to the producer as well as to the consumer, the State was to fix and regulate the price of commodities. Industrial profits were to be fixed normally at not more than three per cent. As regards small-scale and cottage industries, the authors of the Plan recommend a cautious policy. As the entire Plan is based on the belief that any substantial and rapid increase in the productivity of labour depends upon the extent to which machinery is associated with labour in the process of production, it envisages a rather gloomy future for small-scale industries.

The People's Plan attaches great importance to railways, roads and shipping in a planned economy. Therefore it recommends the rapid development of the means of communication and transport to cope with the increased movement of goods and traffic between town and country. Accordingly, during the ten-year period, the railway mileage was to be increased by about 24,000 miles, i.e., by nearly sixty per cent, involving a capital expenditure of Rs. 595 crores and maintenance charges of about Rs. 11 crores. The target for road development was the construction of 4,50,000 miles of new roads at a capital expenditure of Rs. 450 crores and maintenance charges of Rs. 53 crores. Shipping expansion was budgeted at Rs. 150 crores. The Plan also included schemes for the expansion of education, the promotion of public health and sanitation, rural and urban housing, etc.

The question of finding the wherewithal for financing the execution of the Plan, the eternal bugbear of all planners, seems to have been courageously faced by the authors of the People's Plan. The colossal amount of fifteen thousand crores of rupees required for implementing their Plan was

to be obtained as follows :—

	(In Crores of Rupees)
Sterling balances .. .. .. .. ..	450
Initial finance—Estate duty, inheritance tax, death duties, etc. .. .. .. ..	810
Income from nationalized land .. .. .. ..	90
Income from agriculture for re-investment (during the period of the Plan) .. .. .. ..	10,816
Income from industries for re-investment (during the period of the Plan) .. .. .. ..	2,834
<b>Total</b> .. .. .. ..	<b>15,000</b>

The authors of the Plan believe that finance would present no insuperable difficulty because private appropriation of the national income is proposed to be effectively controlled under the Plan. The national planning authority was to plough back the accumulated surplus for re-investment purposes. The reader may refer to Chapter Six of the People's Plan for a more detailed study of its financial aspect. The Plan ends on a note of hope, with the earnest wish that the common man of India might live four times as well as he does today on the completion of the Plan. "A whole people would be roused to the mighty creative tasks that lie ahead, would discover a purpose in life, and take gigantic strides forward along the path of social and cultural progress to catch up with the world and take their rightful position in the family of nations." Let us now subject some of the main proposals of the People's Plan to the test of critical analysis in order to find out how far they are desirable and feasible.

### Over-Emphasis on Agriculture

Tackling the problem of agricultural development, the authors of the Plan enunciate their basic policy in the following words : "Agriculture constitutes the principal industry in the country and nearly 70 per cent of our population depends for its subsistence on land. Whatever the development of industries that we can visualize within a period of ten years, agriculture will still continue to provide employ-

ment to a major portion of our population. That being the case, it is essential that labour employed in it must be made far more productive than it is at present. That will not only lay a stable foundation for the economy but will also lead to the accumulation of an adequate investable surplus, the investment of which can raise its general technical and productive level." In support of this policy the framers of the Plan cite the Soviet example. With the fullest appreciation of the vital importance of agriculture and allied occupations in Indian economy, we contend that the People's Plan lays undue emphasis on agricultural development. Agriculture is not an isolated affair. It is most intimately and inextricably mixed up with other economic factors. To deal with it as if it were an isolated phenomenon would be a wholly wrong approach to the problem of planning. Pressure of population on land and its resultant evils are the main cause of the low income from agriculture. Development of industries would not only relieve this pressure on the land but would also make agriculture itself more productive than it is today, thus creating more favourable conditions for the modernization and improvement of agriculture. The success of any plan for the economic regeneration of India lies not in increasing production in this or that sector but in achieving an economic equilibrium between industrial and agricultural development thus ensuring the optimum utilization of the nation's man-power and material resources. It is indeed inexplicable that a plan prepared under the guidance of no less a person than Mr M. N. Roy should misrepresent the Russian example. The goal of Soviet planning was the rapid industrialization of Russia. (Brij Narayan: *Post-War Reconstruction*, Part II, Page 248.) The overwhelming importance attached to industries in Soviet planning is evident from the fact that while in 1913 industrial production was 42.1% and agricultural production 57.9% of the total production, in 1937 industrial production was 77.4% and agricultural production 22.6%. Soviet Russia made industrial development the corner-stone of its planning. We fail to understand why Mr M. N. Roy should champion the cause of ruralization which was so roundly condemned by Marx and Lenin. His advocacy of agriculture is reminiscent of

Lord Wavell or the *Economist* of London. "Agriculture must take high place—perhaps the highest place of all—in our plans for the development of India after the War." (Lord Wavell's message to the Policy Committee on Agriculture, Forestry and Fisheries, 28th June, 1944.) The British Government of India was always hostile towards measures for the industrial development of India, while never ready to sponsor plans for agricultural development. There would have been no lack of capital for their execution; even the sterling balances would have been available if desired. And it is precisely this policy which has been responsible for the increasing ruralization of the country, Government being only too willing to promote any plan which carried the process still further. "What is a matter of difficulty is the diversion of labour from less productive, more productive occupations, i.e., from agriculture to industry. The development in the two spheres is interrelated. Relief of population pressure on agriculture through industrialization would have to be planned at the outset or the rehabilitation of agriculture itself." This is an important factor to which adequate recognition has not been given in the People's Plan.

### Mechanization of Agriculture

The authors of the People's Plan appear to be very optimistic about the mechanization of agriculture. A careful reading of the Plan reveals that they plumped for the mechanization of agriculture because of their fascination for Soviet Russia and its achievements. It is an indisputable fact, however, that labour was relatively scarce in Russia and therefore all labour-saving devices in general and mechanization of agriculture in particular would produce nothing but healthy results there; while exactly the reverse is the case with our country. Labour being available in such abundance, we do not need to introduce tractors and other modern machinery on any considerable scale. Whatever be the *tempo* of the Plan, at least for another decade or so we cannot seriously think of mechanization as a general prescription for agricultural development. This should not however be taken to mean that we are by any means opposed to

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improvements in agricultural technique or equipment. Our only concern is that due consideration should be given to the realities of the Indian agricultural situation. The typical Indian peasant battles against a none-too-propitious environment with the most meagre of tools and capital. He lives on a bare subsistence level, trying to wrest a wretched livelihood from an impoverished soil. He cannot purchase expensive equipment. The capacity of his draught cattle being limited they are unable to haul heavy implements. His fields are small, having little elbow-room for the use of tractors and other improved modern equipment. How the Indian farmer has survived against all these odds has been described by the Royal Commission on Indian Agriculture in the following words : "In India agricultural implements were on the whole well adapted to local conditions and to the capacity of the draught cattle and were light, portable, comparatively inexpensive, easily made and repaired and constructed of material readily available." The People's Plan, while indulging in rosee dreams of a mechanized agriculture, has failed adequately to appreciate the cramping limitations of the prevailing conditions. The holdings are small, the capacity of the draught cattle poor, the capital available meagre, and the education of the farmer but rudimentary. These age-old handicaps cannot be removed in the short space of a single decade.

### State Farms

The People's Plan relies greatly on State farms for effecting agricultural development. Here too, in our opinion, they seem to have succumbed to the spell of Soviet successes. State farms can well function as research, demonstration and propaganda centres. But they can never entirely displace peasant proprietors or their farms. State farms and peasant farmers are complementary to each other and must both collaborate in the agricultural economy of the country. The total replacement of peasant farming by State farms would entail loss of individual initiative and enterprise as well as the co-operative spirit in agriculture and impair the social character of farming. The Russians themselves have recognized the necessity of individual

peasant farms. In 1941 there were in the U. S. S. R. 243,000 collective farms, 13,000,000 individual peasant owners and 3,961 State farms. Despite the collectivization of agricultural farms and the establishment of State farms, the Russian socialist system has ensured necessary though limited ownership of land to the actual cultivator. The People's Plan in its exuberant enthusiasm for State farms has not provided for the existence and development of those farms which are likely to remain outside the orbit of the State for some years to come.

### Over-Emphasis on Consumer Goods Industries

Moved by the low *per capita* consumption of consumer goods in the country, the authors of the People's Plan prescribe a high priority for consumer goods industries. "The industries on the development of which there should be laid a relatively greater emphasis by the planning authority should be the consumer goods industry. We have to make up a great leeway in this respect." Accordingly they make provision for Rs. 3000 crores to be invested in consumer goods industries. They have relegated basic industries to the background, considering that only Rs. 2600 crores have been provided for them. We are afraid they have put the cart before the horse. It is almost a truism to say that no country can develop its consumer goods industries on a large scale without first developing its basic industries. First we have to find the wherewithal and then proceed to construct factories and mills for turning out textiles, sugar, glass, etc. Unfortunately India's productive capacity is at present limited solely to the manufacture of consumer goods. Our alien rulers did not permit us to develop basic and key industries which alone would have enabled us to build up our technical equipment and accelerate the indigenous manufacture of the means of production. Industrialization confined to the consumer goods industries and at the cost of the basic industries has only resulted in our helpless dependence on imported machinery, certain foreign raw materials and technical personnel. Industrialization of this type has proved not beneficial but harmful in the long run. In spite of the growth and

while successfully enunciating the objectives of planning, has failed to suggest the means to achieve the ends. It is an exposition of the distributive rather than the productive aspect of planning. Any scheme for the equitable distribution of wealth through the nationalization of the means of production is at best a negative process. State acquisition of the means of production would merely relieve the capitalistic load on the mechanics of production. In order to step up the *tempo* of production, a more positive production drive is necessary. We are constrained to say that the People's Plan contains no such dynamic programme.

## CHAPTER V

### THE GANDHIAN PLAN

Before introducing the reader to the main provisions of the Gandhian Plan, it would be appropriate to acquaint him with some of the fundamental principles of the Gandhian economic order. It differs so radically from all accepted economic concepts and systems that it is essential for the general reader to possess some knowledge of its basic principles so as to appraise the Gandhian Plan in its proper perspective. Simplicity, Non-Violence, Sanctity of Labour and Human Values may be said to be the four pillars of Gandhism.

#### **Simplicity**

Gandhiji's earnest and life-long endeavour was to shift the emphasis from material progress and welfare to the moral and spiritual development of man for he believed that modern civilization, based as it is on the spirit of acquisitiveness and aggressiveness, is leading mankind towards disaster. Man's desire for physical comfort and luxury is insatiable. The more he gets, the more he wants ; and yet he remains for ever unsatisfied. This relentless search for material happiness only makes him restless and disconsolate. Therefore the perennial philosophy of the East would turn him from the unending quest of the pleasures of the senses to the life of the spirit. Not that our forefathers did not know the ways of fulfilling material wants ; their aim rather was to shape the social order in such a way as to keep human passions and desires under restraint. Simplicity in the life of the individual and of society is but the practical application of this moral principle of self-restraint. Our present-day economic systems based on the multiplication of human wants and increasing industrialization in order to satisfy them leads to the exploitation of man in every sphere of life. No amount of planning would be able to save humanity from this 'dance of death' unless our very attitude to life undergoes a fundamental change and we adopt the gospel of self-restraint or simplicity. The author of the Gandhian Plan points out

that the very concept of planning is based on Western economic thought. We have to evolve an economic order inspired by our own social and moral ideals. And our philosophy is based on simplicity and not complexity, on self-restraint and not self-indulgence, for it exalts the life of the spirit above the life of the ~~senses~~ and moral values above material wealth.

### Non-Violence

The second basic principle of the Gandhian economic order is non-violence. According to Gandhiji, the capitalistic order of society is based on exploitation in its innumerable forms. The mechanized system of production enables the owning class to exploit the worker and deprive him of his legitimate share of the wealth which is the product of his own labour. Wealth which is thus accumulated by violence also requires to be protected by violence. The machine in the modern age has thus come to be the symbol of the exploitation of the poor by the rich. As long as production is based on a highly centralized system, there is little possibility of bridging the gulf between the rich and the poor, and the friction between the haves and the have-nots is bound to continue. Let us therefore shift the accent in production from accumulation to distribution. In other words, let us have small self-sufficient village republics based upon decentralized production which would obviate unhealthy acquisition of wealth and minimize exploitation. Decentralization of the means of production and of the mechanics of distribution would automatically lead to a democratic social order. Centralized production and economic equality seldom go together. The concept of a self-sufficient rural economy is thus the practical application of the principle of non-violence to the sphere of economics. In the words of the author of the Plan, "In the non-violent society of Gandhiji's conception, therefore, there will be no room for exploitation because production will be for immediate use and not for distant profitable markets."

### Sanctity of Labour

Gandhiji would also restore to labour that sanctity

which makes it a source of delight and a life-giving force, for according to him, "the culture of the hand is indispensable to the culture of the mind." But life in modern society has been debased and vulgarized by the idle rich on the one hand and by sweated labour on the other : the former beguiling their time with soul-killing pastimes and the latter clamouring for leisure and the means to enjoy the good things of life. Gandhiji, therefore, regarded the cry for more leisure as dangerous and unnatural. The lure of leisure leads to the introduction of labour-saving devices which in their turn render some absolutely idle and transform the majority into over-worked machine-minders or factory hands. Gandhiji, anxious to strike at the very root of the economically privileged class, insists on every one becoming as self-sufficient as possible. 'Bread labour' in the Tolstoyan sense is an article of faith with him and therefore in the society of his conception no one should be either idle or over-worked. An equitable distribution of the obligation as well as the opportunity to work should be the basis of the normal routine of the community.

### Human Values

Gandhiji was vehemently opposed to the modern concept of 'the economic man'. Economics to him was but a means to an end— and the end is human welfare. To the extent that economics serves this end it is human ; the moment it ceases to do so it becomes inhuman and 'satanic'. Hence Gandhiji's insistence on moral and human values in economic activities. Economics which permits exploitation of man by man is immoral whatever the dividends it brings in terms of money. To Gandhiji, man was the supreme consideration and life was more than riches. The human factor must weigh with us even in determining economic gains. Money should be the servant of man and not his master.

### Gandhiji and Machinery

Much confusion prevails in this country and outside regarding Gandhiji's views on machinery. His emphasis on handicrafts and cottage industries has often been misinterpreted and misrepresented as blind opposition to every

type of machinery under all circumstances. His doctrine of self-sufficiency and self-governing village republics has been called obscurantist medievalism, an attempt to set back the clock of human progress. The author of the Gandhian Plan has rendered a great service to the cause of Gandhism by clarifying Gandhiji's attitude towards machinery. He has presented a coherent picture of the economic order as visualized by Gandhiji, and the place of the machine in the Gandhian pattern of society. "It must, however, be clearly understood that Gandhiji is not against all machinery. 'I have no design upon machinery as such. The spinning wheel itself is a piece of machinery.' His protest is directed against the current craze for machinery and its indiscriminate multiplication. He therefore does not desire to destroy machinery but to impose limitations on it." The need for imposing limitations on mechanization arises because of the peculiar economic conditions prevailing in the country. "The problem with us is not how to find leisure for the teeming millions inhabiting our villages. The problem is how to utilize their idle hours which are equal to the working days of six months in the year", says Gandhiji. Yet he welcomes machinery and modern inventions which lighten the burden of the villagers without displacing human labour. "Today machinery merely helps the few to ride on the back of the millions. It is against this constitution of things that I am fighting with all my might." The problem of distribution which has become the crux of the present-day economic malaise finds its most natural solution in the Gandhian order. "Distribution", says Gandhiji, "can be equalized when production is localized : in other words, when distribution is simultaneous with production." Decentralized small-scale production would cut at the very root of the process of the accumulation of wealth in the hands of the few. The problem of equitable distribution can best be tackled at the production end and not at the consumption end. Prevent the centralization of the means of production and the accumulation of wealth will automatically be checked. Centralized, large-scale production will inevitably result in the concentration of wealth in the hands of the few. Hence Gandhiji's plea for imposing a limit on the indiscriminate growth of

mechanized industrialization. Machinery is good so long as it operates in the interests of all : it is nothing but an evil when it tends to serve the interests of the few.

### Objective of the Plan

" The chief objective of the Plan is to raise the material as well as cultural level of the Indian masses to a basic standard of life within a period of ten years." The Plan aims primarily at resuscitating the seven lakh villages of India and therefore the greatest emphasis is laid on the scientific development of agriculture and of subsidiary cottage industries.

The basic standard of life for every individual includes :

1. A balanced diet of 2600 calories per day, costing Rs. 5 per head per month at pre-war prices in rural areas.
2. 20 yards of cloth annually, costing about Rs. 4 at 3 a<sup>s</sup>. per yard.
3. Household expenses, medicine and other miscellaneous items of recurring expenditure, amounting to Rs. 8 per head per year.

" The total annual expenses for each individual, therefore, will be at least Rs. 72." The present *per capita* income in rural areas according to the Plan being only Rs. 18, a four-fold increase will be necessary to make the basic necessities and a minimum standard of comfort available to all. For achieving this objective the Plan recommends the development of agriculture and of cottage industries on scientific lines.

### Agriculture

The Plan considers the reform of agriculture as the most important item in any scheme of economic development. The aim should be to develop agriculture and industries side by side and integrate them together. The primary objective of agricultural development should be national self-sufficiency in foodstuffs and maximum regional self-sufficiency in food requirements. In order to realize this objective, certain radical changes in the agricultural set-up of the country have been suggested. The Zamindari and the Ryotwari systems are to be replaced by the Mauzawari settlement or village

purchase of raw materials and the sale of surplus craft goods and (e) providing facilities for technical training and research in the technique of handicrafts.

### Basic Industries

Contrary to the general notion that Gandhiji was against the development of all large-scale industries, the Plan recognizes the need and importance of certain selected basic or key industries in a free India. The following basic industries are to receive special attention:—(1) Defence Industries, (2) Power—Hydro-electric and thermal, (3) Mining and Metallurgy and Forestry, (4) Machinery and Machine Tools, (5) Heavy Engineering, and (6) Heavy Chemicals. But their development is to be so planned and their operation so regulated that they will not hinder but help the growth and evolution of cottage industries. The large-scale industries are to be decentralized to the maximum possible extent, keeping in view the economic, social and military factors. The menace of rural unemployment or of undue dependence on machinery alone would be the limiting factors in the use of power for production. State ownership and management of key industries is to be the corner-stone of the Plan. For the period of transition from private ownership to State ownership the Plan lays down a general policy of State control over the price of goods, profits and labour conditions in the privately owned industries, checking the further expansion of private enterprise, purchase of foreign assets by the State, and regulating competition between cottage industries and large-scale industries.

We shall for the present leave out transport, communications, banking and currency and public finance as they are relatively of secondary importance in the Gandhian economic order, nor is it possible for us to discuss them at length in a brochure like this. Gandhiji's views on education, public health and sanitation, etc., are so well known that the reader may be spared a resume of the social service section of the Gandhian Plan. However an extract from the chapter on Distribution may be appropriate as the success of any plan depends largely on the manner in which its resultant benefits are distributed among the people. If a plan

fails properly to solve the problem of distribution it is bound to fail in inspiring confidence in the people and enlisting their co-operation which is indispensable for its success. The Gandhian Plan claims to solve the problem of distribution through production itself and simultaneously. In the words of its author, "With localizaton or regionalization of production, the problem of distribution will be greatly simplified. With decentralization of production in small self-sufficient economic units, and the ownership by the State of the basic industries and public utilities, the rentier class would have scarcely any place in the national economy." Prevent the concentration of the means of production and concentration of wealth will automatically be checked.

### Finance

The financial provisions of the Plan may be shown as follows :—

Activity		Non-recurring expenditure	Recurring expenditure	Capital necessary
Agriculture	.. ..	(In crores of Rupees) 1175	40	1215
Rural Industries	..	350	..	350
Key Industries	.. ..	1000	..	1000
Transport	.. ..	400	15	415
Public Health	.. ..	260	45	305
Education	.. ..	295	100	395
Research	.. ..	20	..	20
Total	..	3500	200	3700

## SOURCES OF INCOME

(In crores of Rupees)

Internal Borrowing	..	..	..	2,000
Created money	..	..	..	1,000
Taxation	..	..	..	500
<b>Total..</b>	<b>..</b>	<b>..</b>	<b>..</b>	<b>3,500</b>

The Plan has two aspects—urban and rural. The urban areas are to be planned on modern lines with large-scale industries under State ownership and control and inhabited by the working classes with their own mode of living. The rural areas are to remain essentially rural but with the provision of certain amenities of modern life. Cottage industries mainly plied by hand and accommodating limited capital are to be the chief feature of village life. The Plan does not state how these two factors are to be integrated into a unified national economy. National economy must be viewed as an organic whole and its problems tackled on a national scale. Very often the economic factors of urban and rural life come into conflict. The author of the Plan himself admits the seriousness of the economic drain from the villages to the towns. But he does not state how these two economies can be so regulated and co-ordinated as to check the drain on the rural areas. On the one hand the Plan insists on the ideal of self-sufficiency for villages ; on the other, it envisages an urban economy of key industries. The latter is bound to make inroads on the former to the detriment of rural economy.

Village economy can function on a self-sufficiency basis only at a particular stage of economic evolution. It is the result of the working of certain economic forces and therefore an organic system by itself. It can hardly be imposed from outside or above. But the whole complex of present-day economic trends militates against the survival of such an economy. Modern means of transport and communication, large-scale industries and markets which the Plan envisages in the urban areas, though owned and controlled by the State, would profoundly affect all those economic

conditions and factors which necessitate or sustain a self-sufficient rural economy. How can the village economy remain stable and intact in the context of large-scale industries? The growth of gigantic modern industrial enterprises is bound to disturb the age-old serenity and security of rural existence.

It may however be argued that the evil effects of large-scale industrialization can be countered by stringent economic controls. But in that case we are afraid the other ideal of the Gandhian Plan—maximum individual liberty—will be adversely affected. On this very plea the Plan has rejected the Soviet example in such emphatic terms: “The capitalist class was systematically eliminated and rooted out with an iron hand. There were mass murders, treason trials and purges, and the Communist Party reigned supreme in the name of the dictatorship of the proletariat. Individual freedom was rigorously curtailed and circumscribed.” Some restriction on personal liberty is inevitable and implicit in any planning. The State would have to exercise rigorous control in order to protect village economy from the inroads of large-scale industry. The process must necessarily involve the abridgement of individual freedom to a considerable degree.

But the Plan itself does not contemplate any such drastic economic controls nor does it mention how economic equilibrium can be maintained between urban and rural life and economy. For instance, it is anxious to protect the interests of the agriculturists but ignores the problem of determining and stabilizing prices. It is a well-known fact that only a sound price structure can ensure fair prices to the producer as well as the consumer. Moreover, a scientific system of price control can also be utilized for reducing the glaring discrepancies in incomes and ensuring an adequate minimum standard of living for all. Without such a comprehensive price policy the agriculturist will hardly get a fair deal in any scheme of planning. Therefore the Plan should have laid down at least the broad principles of such a price policy.

Further, it is not possible to say that the Plan has been uniformly consistent in giving a practical exposition of the principle of decentralization. The idea should have been expounded in a more concrete and coherent manner. “Unless it

is developed with imagination and with the fullest appreciation of its revolutionary significance, decentralization may end up in a commonplace village uplift scheme." But the mere enunciation of the principle of decentralization is not enough. It should be put on a scientific basis and applied to the economic conditions of the country so that it may be as potent for the good of humanity as centralization has been for its evil. We miss in the Plan a complete picture of an India studded with decentralized industries.

It must also be said that decentralization of industries by itself is not enough to safeguard the interests of the village artisans. So long as profit remains the motive of production, society can benefit neither by centralized nor by decentralized industries. The Gandhian Plan retains profit as the motive of production in village industries. It permits private enterprise and initiative in rural economy. It is just possible that this may give rise to a new class of petty capitalist artisans. This new class may prove a formidable rival to Co-operative Societies. Moreover, socialized key industries in the urban areas and private enterprise in rural industry may prove to be an incompatible mixture, ineffective for curing the economic ailments of India. We may cite here the failure of the present system of partial State control and private enterprise operating in the field of food and cloth rationing. Such a state of affairs can neither remove consumers' hardships nor abolish disparities in income. It is more likely, if anything, to make the rich richer and the poor poorer.

We have also our own misgivings as regards the target of the *per capita* income aimed at in the Plan. After agriculture, cottage industries will be the second most important source of income in the villages. Any increase in the income brought about by improved agriculture can at best be gradual. We are therefore led to believe that the Plan pins its hopes on cottage industries for bringing about a four-fold increase in the *per capita* income of the villagers. How it is possible within ten years to raise our *per capita* income to four times its present level with the help mainly of village industries, and that too within the limits of self-sufficiency, has not been adequately explained by the author of the Plan. An

income budget of a typical artisan rehabilitated on the lines of the Gandhian Plan would have convinced the reader of the soundness of the calculations made in it. The principle of self-sufficiency may also impose its own limitations on village development. It rules out specialization altogether and does not permit the free application of the law of substitution. Hence the efficiency of production can hardly be raised to the maximum. Reorganization of rural industries on a self-sufficiency basis and improvement in the technique of production may result in raising the *per capita* income up to a certain point and not beyond, as the restrictions of a self-sufficient economy would limit further progress. The facts and figures mentioned in the Plan do not, in our opinion, serve to prove the contrary.

Further, the Plan itself contains a limitation on the development of village industries. It provides the meagre sum of Rs. 5,000 per village for developing cottage industries, whereas the ideal of self-sufficiency would require the development of a large number of cottage industries in every village. The carpenter, the blacksmith, the weaver, the shoe-maker, the potter, the dairyman and a host of other artisans and craftsmen are indispensable to any village economy. The amount of Rs. 5,000 for all-round rural development may prove quite inadequate. As according to the Plan these industries are to supply the major portion of consumer goods, it should have provided for more capital outlay for developing cottage industries on up-to-date lines.

A rural India of autonomous village communities and an urban India on the Russian model would be an incongruous two-storeyed structure dividing the body politic into two distinct and heterogeneous economic sectors. This is the picture presented to us in the Gandhian Plan. The two sectors are bound to differ, and differ radically, in point of ownership, production, technical equipment, administration and management, labour conditions, etc. In brief, there would be two entirely different environments. Under these circumstances, it should have been made incumbent on the State to enforce a national minimum wage policy and assure every working man a 'national minimum' below

- (d) By obtaining the services of Western technicians for several countries on a joint and co-operative basis.
- (e) By avoiding duplication of efforts in developing special industries in different countries of Asia.
- (f) By improving transport and communications between Asian countries for purposes of co-ordination in economic planning.

## CHAPTER VI

### THE PLANNING ADVISORY BOARD

In the immediate post-war period, a number of plans and projects for rehabilitation and reconstruction were formulated both by the Central and the Provincial Governments and by several important non-official agencies. A spate of literature on planning poured forth and several official and non-official schemes began to be put into execution—all of which only resulted in a multiplicity of unco-ordinated activities involving a huge waste of money, time and energy. The Planning Advisory Board was therefore appointed by the Government of India to make a rapid survey of the work already done in the field of planning and to make recommendations regarding co-ordination and reform of planning, objectives and priorities and the machinery of planning. Under the able chairmanship of Mr K. C. Neogy, the Board completed its task within two months and submitted its report to the Government in December, 1945.

#### Objectives and Priorities

The Board endorsed the general objectives of planning as outlined in paragraph IV of Part I of the Government of India's Second Report on Reconstruction Planning. Broadly speaking, improvement in the general standard of living of the people as a whole and useful employment for all were to be the main objectives of planning. Adequate and effective organization of the defence of the country was regarded as a secondary objective. The Board gave only qualified approval to the doctrine of national self-sufficiency because, in its opinion, "no country can be absolutely sufficient." However, national self-sufficiency "should certainly be aimed at in certain spheres, e.g., in the production of essential foods." For the attainment of these objectives the Board made three recommendations: the development of the resources of the country to the maximum possible extent, the equitable distribution of the wealth produced and a balanced economy through 'regionalization'.

The Board, while seeking to give definite and concrete shape to the general objective of raising the standard of living

of the people, felt constrained to remark that "we do not at present possess in India either sufficient knowledge and statistical information or sufficiently extensive control over economic activity to be able either to frame or to execute plans whose combined and cumulative effect will be to increase *per capita* income by a pre-determined amount." Nevertheless the Board approved the quantitative norms adopted by the National Planning Committee and by the authors of the Bombay Plan. It also emphasized the need of fixing specific targets for individual industries, for certain branches of agriculture and for the development of shipping, railways, roads and other forms of communication. Composed of experienced and practical persons as it was, the Board counselled that "moderate targets which can be executed within definite time limits are a surer foundation for industrial development than more grandiose schemes which if successful might turn out to be in excess of the absorptive capacity of the country and if unsuccessful give a serious set-back to its progress." (*ibid* Part III, page 14.)

The Board expressed its inability to fix definite and absolute priorities as they depend largely on the *tempo* and exigencies of activities. A simultaneous advance in all the important sectors was highly desirable but in the initial stages the emphasis was to be on increased production. "Moreover, priority is in essence a question of emphasis according to the exigencies of a given moment and not a matter of exclusive concentration on this or that industry or industries." However, the Board recommended that first preference be given to defence industries and to industries relating to primary necessities such as food, clothing and housing, to coal and to transport. Irrigation, hydro-electric power, iron and steel and chemicals were also to be given equal preference. The manufacture of machinery would come next and industries producing consumer goods other than essentials would be the last on the priority list. But the development and expansion of the various sectors require a large army of trained personnel which was therefore to be regarded as priority No. 1. The Board laid special emphasis on the observance of these priorities in the following words: "We would like to emphasize that in addition to fixing priorities

it is essential to ensure that, so far as may be, these priorities are actually observed." It therefore recommended the immediate setting up of a Priorities Board for the allocation of certain basic resources in accordance with the requirements of the situation in the country as a whole.

### Co-ordination and Improvement of Planning

The Board makes references to the 'bottlenecks' of finance, capital equipment and of trained personnel which may slow down the pace of execution of the plans. During the next five years the lack of capital, in the opinion of the Board, may not present any considerable difficulties, for "what is physically possible is likely to be financially possible" provided the Central and Provincial Governments tackle the execution of the development schemes in a co-operative spirit and agree on a common financial policy.

Secondly, all efforts in the initial stages are to be concentrated on building up national wealth. The Board suggested three measures for mobilizing the financial resources of the country : (1) increased taxation, (2) increased borrowing and (3) creation of additional money. The planners are warned by the Board to use the third method only as a last resort, for created money, in the absence of strict discipline and economic controls, may bring disaster to the country. Created money was to be used only for such productive purposes as would result in augmented national wealth. The Board prescribes taxation as the chief means not only for financing development plans but also for securing planned distribution of the increased national wealth. The entire taxation structure of the country being antiquated and unscientific, the Board recommends its complete overhauling. Although a very large proportion of the capital required for implementing new projects will have to be realized from internal borrowing, the Board is not averse to external borrowing provided it does not infringe national sovereignty. "We are of the opinion that the intrusion of foreign firms in the field of Indian industry should not be allowed" for "foreign vested interests once created would be difficult to dislodge."

The second 'bottleneck' is lack of capital equipment and of certain types of raw materials. In view of the undeveloped

recommended the nationalization of coal mines, mineral oils, iron and steel, and motor, air and river transport. The extension of State activity in the industrial sphere will necessitate the re-organization of governmental machinery on new lines so as to make it more effective and efficient for the undertaking of new enterprises. According to the Board, "the best way of conducting State enterprise will be through public corporations". The Board has expressed its general agreement with the resolution of the National Planning Committee regarding the ownership and exploitation of the mineral wealth of the country. "The mineral wealth of the country belongs to the community collectively. The exploitation of minerals and development of mining and mineral industries should be reserved exclusively to be carried out as public enterprises." But the Board does not consider that the nationalization of mines and mineral industries is immediately feasible. An alternative policy was therefore suggested, i.e. the working of minerals was to be reserved for the nationals while the responsibility for regulation and co-ordination of mineral development was to be assumed by the Central Government.

### Machinery of Planning

In the opinion of the Board the future machinery of planning should be organized on a functional basis. At present the responsibilities of the Central Government are limited and a very large number of developmental subjects are administered by the Provinces. Yet the Central Government can influence the developmental activities of the Provinces through its currency, credit, trade and transport policies. Moreover, if the existing legislative powers of the Central Government are judiciously used with war-time controls, it can considerably influence national planning. The Board found the existing machinery for dealing with planning and allied subjects at the Centre to be unsatisfactory and has therefore suggested a Planning Commission which will be a single, compact, authoritative organization directly responsible to the Cabinet and devoting its attention continuously to the whole field of development. It should be composed of not more than five and not less than three members,

assisted by a Secretariat and appropriate technical panels. The Commission should be a non-political body completely and permanently dissociated from the vicissitudes of politics. Its composition should be as follows :

- (1) A Chairman having general experience of public affairs ;
- (2) two non-officials with knowledge and experience of industry, agriculture and labour ;
- (3) a Government official with knowledge and experience of finance and general administration, and
- (4) a person eminent in the field of science and technology.

The main functions of the Commission will be formulating plans for the development of major industries and important minerals; scrutinizing, co-ordinating, stimulating and watching the progress of various provincial and central projects; making recommendations to Government regarding allocation of funds, forms of state-aid, regulation of industries, trade, currency and credit; allocating material resources in accordance with priorities; encouraging and organizing research; and publishing statistics and periodic reports of progress.

The Commission could only make recommendations and decisions would rest with Government ; but as far as priorities are concerned, the Commission's decisions should be final. It would have to be in close touch with the activities of the following bodies :

- (a) The Scientific Consultative Committee,
- (b) the Tariff Board (Permanent), and
- (c) the Central Statistical Bureau.

In order to make the advice and opinion of a bigger body available, a consultative body of 25 to 30 members should be set up to include representatives of Provinces and States, and representatives of agriculture, industry, commerce, labour, science, etc. This body will review the progress reports of the Planning Commission and facilitate co-operative action by voluntary agreement among the various political units. The pattern of organizational machinery suggested for the Centre should also suit the requirements of Provinces and the States.

## CHAPTER VII

### ECONOMIC POLICY OF THE INTERIM GOVERNMENT

"We have decided that immediate arrangements should be made whereby Indians may decide the future constitution of India and an Interim Government may be set up at once to carry on the administration of British India until such time as a new constitution can be brought into being"—runs a passage in the British Cabinet Mission's Statement of 16th May, 1946, which is the genesis of the so-called Interim Government. In order to give concrete shape to this declaration of the British Government, the Governor-General of India announced on 24th August, 1946, the appointment of an Interim Government composed of the representatives of the principal Indian political and communal parties. It is not relevant to the purposes of our present study to sketch the tangled political background or to trace the many vicissitudes through which the Interim Government was to pass before the birth of the Dominion of India. We are concerned here only with a critical examination of the economic plans and policies of the Interim Government in order to round off our study of the several economic plans for India before we proceed to a more general discussion of the wider issues and problems involved in a planned national economy.

Of the two major political parties constituting the Interim Government, *i.e.*, the Indian National Congress and the Muslim League, the latter, conditioned largely by the historical circumstances of its origin and growth, had no distinctive economic ideology or policy of its own. A communal organization masquerading as a political party—a phenomenon not unfamiliar to students of colonial imperialism with its classic strategy of 'divide and rule'—it had never given serious thought to the economic problems of the country, while the Indian National Congress had evolved through the long and eventful years of its struggle for political emancipation a definite and workable economic ideology of its own. From the days of Romesh Chandra Dutt, Mahadev Govind Ranade and Dadabhai Nowrojee to Mahatma Gandhi and Pandit Jawaharlal Nehru in recent times, the Congress

had built up a tradition in economic thought which profoundly influenced the minds not only of its own rank and file but official circles too. For a detailed study of the subject, the reader is referred to the work of the National Planning Committee, the All-India Village Industries Association, the All-India Spinners' Association, the Reports on the working of the Congress Ministries and the various Resolutions on economic matters adopted by the Congress from time to time. The basic principles of the economic policy and programme of the Indian National Congress were, however, first precisely formulated in the Fundamental Rights Resolution of the Karachi session of the Congress in 1928. With these preliminary remarks we shall pass on to consider the economic policies and plans of the Interim Government.

### **Food and Agriculture**

When the Interim Government assumed charge of the administration, the food situation in the country was critical and alarming. Some areas were menaced by the threat of imminent starvation, while the over-all situation was deteriorating steadily. Dr Rajendra Prasad, the Food Minister in the Interim Government, thus described the situation in his broadcast talk on 23rd September, 1946, just three weeks after assuming office: "With the failure of crops in our own country, short allocations from abroad, a heavy short-fall in the arrival of these allocations, difficulties of transport in Siam and Java and non-materialization of expected imports from Argentina, we are faced with a grave situation." These several factors had caused a deficit of seven million tons which was about 10 per cent of the normal produce—a most disquieting situation for a country like India which habitually lives from hand to mouth. Under the able stewardship of Dr Rajendra Prasad, the Food Department faced the crisis with courage, wisdom and dispatch. Government efforts to meet the emergency can be studied under three heads: Imports from abroad, Internal Procurement and Distribution, and Increased Production Campaign.

#### **Imports from Abroad**

As soon as Government discovered that there was a big

deficit which could not be met by internal supply. It deputed the Food Secretary, Sir Robert Hutchings, to London to present India's case before the International Food Emergency Commission. The visit of ex-President Hoover of America and an American Mission under Dr Schultz also attracted the attention of the world to India's menacing food position. As a result, *ad hoc* arrangements were made for securing wheat from America, Australia, Canada and other countries and rice from Siam, Indo-China and Indonesia. Food-grains were also imported from Iran, Turkey, Abyssinia, Egypt and Brazil. Diwan Chamanlal's mission to Argentina succeeded in securing 300,000 tons of maize. In order to enable Siam and Indonesia to overcome their internal transport difficulties which were impeding movement of food-grains, the Government of India offered locomotives, wagons and motor vehicles to Siam and coal and trucks to Indonesia. From all these sources Government succeeded in securing 1,700,000 tons of cereals.

Government, however, was fully alive to the fact that in view of world-wide food shortage, it was neither possible for a country like India to depend for its food requirements on imports from abroad for any length of time, nor was it desirable. Dr Rajendra Prasad, in the course of a debate on the food situation in the Central Assembly on 4th November, 1946, said: "We have seen that we cannot depend upon imports from foreign countries for meeting our requirements. It is not desirable either to continue to depend upon such imports. India is an agricultural country and it is really a matter of shame for us if we have to go to other countries for the one thing which is supposed to be our speciality, namely, foodstuffs." Therefore, Government turned its attention to increasing internal procurement and launching projects for intensifying production of food-grains.

### Internal Procurement and Distribution

Efficient internal procurement is rendered extremely difficult in a vast country like ours, where small surplus stocks have to be located and collected from millions of farmers spread all over the land. Lack of statistics and reliable information is a further handicap. In the *ryotwari* areas the

work of procurement was slightly easier and more successful than in the permanently settled areas where lack of data was more acute. Through a system of monopoly procurement Government could collect in all 3,800,000 tons—as against 1,700,000 tons of imports—which comes to about 16 per cent of the surplus which the cultivator places in the market.

To make the best possible use of the available internal and external resources and to ensure fair and equitable distribution, rationing and controlled distribution schemes were extended, particularly in the urban areas. In March, 1943, the number of people rationed was only 2 millions. On the 1st of December, 1946, their number was 150 millions. For meeting the demands of the population under rationing and controlled distribution—urban as well as rural—Government distributed about 650,000 tons of food-grains every month.

#### **'Grow More Food' Campaign**

In addition to imports from abroad and intensified internal procurement, Government took all possible steps to increase the production of foodstuffs in the country. The production programme of Government had a two-fold objective: to produce enough for tiding over the present crisis and to produce more in order to raise the nutritional standards of the people quantitatively as well as qualitatively. Therefore, the problem was attacked with long-term measures and short-term measures. Several multi-purpose projects were planned by Government—like the Damodar Valley Project, the Mahanadi Project and the Kosi Project—in order to check flood havoc, to avert the danger of drought, to generate electric power and to facilitate navigation. "The idea is", the Food Member stated in the Central Assembly, "to train the rivers and to so control them as to turn the water which is now a source of havoc and devastation into a source of profit to the agriculturist and at the same time to create power which will be available for industrial and other purposes cheaply." But the execution of these ambitious schemes inevitably involves the time factor and long-term projects are no answer to pressing present needs. Therefore, in order to produce immediate results, Government launched a "Grow More Food" campaign. Its aim was to produce an

extra four million tons of food within the next five years. At first sight, the project may seem somewhat ambitious and impracticable. But considering that the target of 4 million tons works out to about 6 per cent of the total annual food production, it cannot but be held eminently reasonable and realistic. For implementing this scheme, Government decided to give direct aid to the agriculturist by providing additional irrigation facilities, supplying manure and improved quality seed and also agricultural tools and implements. Reclamation of waste land was another measure initiated by Government. The Central Government was to subsidize each "Grow More Food" scheme to the extent of 25 per cent and the Provincial Government to the extent of another 25 per cent, thus bearing half the cost of every project between the two of them. The limited objective of the production drive was, in the first instance, to meet the present demand at the current scale of consumption and not at one bound to raise the standard of nutrition or of living of the community. But it was hoped, besides making up the immediate deficit, to add something to the income of the farmer, which brings us to a consideration of the agricultural price policy of Government.

### **Agricultural Price Policy**

The problem of agricultural prices is rendered complex by the conflicting claims and importunities of the producers and the consumers, not to mention the distributors, wholesale or retail. Government had to view the problem from two angles : the price to be paid to the cultivator for his produce and the price at which it is to be sold to the consumer. The two are not easy to reconcile, because, while the farmer would like to get as much as possible for his produce, the consumer is by no means willing to pay exorbitant prices for his food-stuffs. Government have to strike a balance between the two. Although the prices of the principal food-grains throughout the country are fixed at controlled rates, hoarding and profiteering, and corruption and black-marketing tend to push prices steadily upward and frustrate controls. In order to check these evils, the system of monopoly procurement was introduced. Wherever possible, co-operative societies were set up in order to eliminate intermediaries as far as possible

and to curb runaway prices.

But Government's legitimate desire to prevent undue rise in prices did not imply any intention on their part to deprive the cultivator of a reasonable price for his produce. Government had given the most careful consideration to the demand for raising the prices of agricultural commodities with a view to ensuring a fair and reasonable return to the cultivator. An analysis of the population shows that it consists of 40 per cent of non-producers who purchase their food requirements from the market ; the remaining 60 per cent are producers. As the Food Member stated in one of his Assembly speeches, prices have to be fixed in such a way as to be fair both to the consumer and to the producer. The demand for higher prices for agricultural produce is based on the argument that the cultivator has to pay proportionately more for what he purchases in the market than what he gets for his own produce. But the index figures for the various commodities as in September, 1946, tell a somewhat different story :

[August 1939 base . . . 100.]

Rice	..	..322	Iron	..	..117
Wheat	..	..373	Hides & Skins	..	200
Sugar	..	..169	Kerosene	..	151
Cotton	..	..192	Cotton manufactures	261	
Jute	..	..227			

These figures clearly show that the prices of agricultural commodities have risen higher than those of other consumer goods. Therefore there is no convincing case for raising the price of foodstuffs. In the words of the Food Member, "Today the cultivator is getting what in fairness he can claim." Had the prices been unfair, the cultivator would have reduced production by (a) leaving his land uncultivated, (b) diverting his land from food crops to other crops, or (c) relaxing intensive cultivation. But there was no evidence to show that any of these things was happening. Hence Government decided to maintain current prices, keeping in view the interests of the producers as well as of the consumers. Government, however, gave the assurance that if and when the necessity for raising agricultural prices arose, they would not hesitate to revise their policy.

### Trade and Industrialization

The first official statement on the Interim Government's objectives in the sphere of trade and industrialization came from the Hon. Mr C. H. Bhabha, Commerce Member, in his address to the Trade Policy Committee meeting held on 19th September, 1946. Mr Bhabha in his speech thus stated some of the fundamentals of the administration's policy regarding trade and the industrial development of the country : "Our general approach to the problem of trade policy is based on the principle that India must take full part in all international conferences and develop close and direct contacts with other countries and co-operate with them in the furtherance of world peace and freedom." But he also made it sufficiently clear that the Interim Government considered the expansion of trade not as an end in itself but as a means to an end. The end was nothing less than raising the standard of living of all the backward peoples of India and the world. Therefore no schemes of economic reconstruction were acceptable to India which did not ensure her rapid industrialization. "We are determined to initiate effective measures for the rapid economic development of this country, for it is our firm conviction that if our people are to be freed from the shackles of poverty and other evils, our national resources must be developed to the full," said Mr Bhabha. Another official spokesman, Mr R. K. Nehru, Joint Secretary, Department of Commerce, and Leader of the Indian Delegation, speaking at the Plenary Session of the Preparatory Commission on Trade and Employment held in London on 17th October, 1946, stated his Government's position in these words : "India is prepared to collaborate in all schemes which promise substantial and constructive assistance for implementing her policy of rapid industrial development. India will, therefore, in the sphere of trade and employment press not only her own case but also champion the cause of other backward countries of the world. If our economic objectives are sound—and there seems to be general agreement that the rapid economic development of all countries is a desirable objective—then we must retain the power to regulate our trade relations with other countries by methods which are both effective and economical from our own point of view and which will yield maximum

results at minimum cost to all the interests concerned."

Further elucidating the Interim Government's trade and industrialization policy, the Commerce Member in a speech to the Bombay Indian Chamber of Commerce on the 11th October, 1946, said that India would not hesitate to use such approved instruments of trade regulation as were appropriate to her special circumstances. Her immediate programme of trade expansion would, therefore, be directed towards developing her export trade in manufactured articles and regulating her import trade so as to import only those goods which are essential for her industrial expansion. Planned regulation of India's external trade with a view to developing her trade and industry would in no way militate against the interests of highly industrialized countries of the West, as the development of the backward countries would ultimately raise the volume of trade and employment of the world as a whole. With her altered economic status, India would prefer a system of non-discriminatory trade to preferences or discriminations, as under the former system she can have free access to all the markets and thus make the best use of her sterling balances. The demand of the highly industrialized countries for free access to raw materials must be balanced and reciprocated by conceding the right of the backward countries to have free access to capital goods and technological skill. As the economies of war-devastated countries had not yet attained equilibrium and as India had not finalized her development plans, the precise formulation of a long-term tariff policy at this stage was rather difficult. Therefore she reserved the right to change her trade and tariff policy according to the exigencies of the internal and external situation.

For the development of the country's external trade the Interim Government appointed Trade Commissioners in foreign countries and sponsored industrial and technical missions abroad to establish and strengthen contacts. Our trade relations with the U.S.A. were bound to develop with our progress in industrialization as she was the leading country in the world which was in a position to supply us with badly needed capital goods and technical skill. Since the beginning of the War up to 31st March, 1946, India had earned Rs. 405 crores worth of U. S. A. dollars and had spent

Rs. 240 crores, having a net surplus of Rs. 165 crores. With the relaxation of the tests of essentiality and non-availability applied when drawing on the Dollar Pool and the establishment of full responsible government, India's over-all trade with the U. S. A. was bound to grow by leaps and bounds. The Interim Government had also given serious consideration to India's economic relations with the U.S.S.R. The Soviet Trade Agency in India was given the fullest assistance and all facilities for the procurement of raw jute, jute manufactures, tea and tobacco in India. Government was exploring possibilities of importing food-grains from Russia in return. The question of resuming trade relations with Japan was under consideration by the Allied Trade Board of the Far Eastern Commission. As a result of representations from the Government of India it was accepted that India should supply a substantial part of the Japanese demand for cotton and in return she was promised silk, rayon and other goods from Japan. Our Political Representative in Tokyo was instructed to explore the possibility of securing capital goods from Japan, particularly textile machinery and mill stores.

However important India's trade relations with more remote countries like Great Britain or the U. S. A. might be her natural sphere of influence is in the Indian Ocean region in South-East Asia, in the shaping of whose economy India is destined to play a major role. Her trade with her neighbours in the Middle East and the Far East is bound to grow in value and significance. The Asian Relations Conference appropriately enough, discussed at considerable length how best India could champion the cause and promote the interests of the economically backward countries of Asia. The deliberations of this Conference, though entirely non-official in inspiration and character, are bound to influence India's external trade policy as well as those of her immediate neighbours.

An analysis of the trade policy of the Interim Government would not be complete without a brief reference to its mechanics of controls. The Interim Government inherited a war-shattered economy together with the many bad legacies of an alien bureaucratic administration. With the cessation of hostilities, the state of emergency in the military sense was over but the economic exigencies consequent on a global

war of unprecedented dimensions, far from showing signs of abatement, were, as a matter of fact, aggravated by the inevitable aftermath of the War. There were no indications of a downward trend in the general level of prices. Scarcity of essential consumer goods persisted. Inflationary pressure was at its peak. Introducing the Control Bill in the Central Assembly, the Hon. Dr John Matthai, Member for Industries and Civil Supplies, observed, "We are up against the same problem as that which faced us last year and the year before that and that is the reason why controls should continue." Analysing the situation, the Honourable Member said that during the war large amounts of money were put into circulation which tended to concentrate in the hands of a comparatively few persons and there was also an over-all shortage of consumer goods. Consequently the vast majority of the people whose resources were limited fell a victim to the prevailing inflationary tendencies. There was thus an unanswerable case for controls, and if Government did not exercise control over essential commodities, the entire national economy might ultimately collapse. Therefore the Interim Government invested itself with the powers necessary to prevent such a catastrophe and to provide as far as possible essential commodities to every citizen at a reasonable price.

Almost all sections of the community approved the principle of control. Criticism was directed only against the way in which controls were being administered. Certain controls operated to the detriment of certain groups and sectional interests; others proved ineffective. Black-marketing often followed in the wake of control and corruption was rampant. But controls could no more be abrogated because of evasions and black-marketing than laws could be revoked because of breaches and crimes. All the world over, controls have proved difficult to enforce effectively and satisfactorily—the more so in a country like India, where administration so far had been generally of a negative character. Where the social conscience of the community is not awake, the administration of controls becomes still more difficult. Anyhow, the entire system of controls was a novel experiment on a scale and of a nature never before tried out in India and the administration could but proceed by a

cautious process of trial and error. All in all, it must be said that enlightened opinion in the country was in general agreement with the point of view of Government as set forth by its principal spokesmen.

### Labour Policy

When the Interim Government assumed the reins of office in September, 1946, the country was seething with labour unrest and the air was thick with strikes and rumours of strikes. Railwaymen, Post and Telegraph employees and workers in a number of major industries were either on strike or threatening to do so. The Interim Government was thus faced with a grave situation at the very start. On the one hand, a wholly indigenous Government claiming to represent the people had to be extremely solicitous of the welfare of the working classes, while on the other, it had to look after the interests of the community at large. Only a fortnight before, the Working Committee of the Indian National Congress had passed a resolution on the labour situation, expressing its earnest desire to avoid preventable strikes which could result only in further shortage of essential goods and more hardships to the people. The Committee, while sympathizing with the plight of the working class, was of the opinion that only a well-defined national plan for labour could ameliorate their condition. It also stressed the importance of the machinery of conciliation and arbitration for the settlement of industrial disputes. At the same time, it stated that "hasty or ill-conceived stoppages of work or refusal to take advantage of available means of settlement by negotiation, conciliation or arbitration constituted a distinct disservice to the community and the working class itself." The labour policy of the Interim Government was largely guided by this resolution. In order to tackle the labour problem, it made a two-fold attempt: regulation of the relations between the employer and the employee and measures to improve the working and living conditions of the workers.

The first official statement on labour policy was made by the Labour Member, the Hon. Mr Jagjivan Ram, in his presidential address to the Conference of Labour Ministers

held on 14th October, 1946. Outlining the basic principles of the labour policy of the administration, he expressed the hope that the Central and Provincial Governments would now pull together and do something real and effective to make the life and labour of the working man a little more bright and cheerful. Whatever might be the future constitutional set-up of the country and the distribution of authority with regard to labour matters, there was an urgent need to devise methods which would ameliorate the working and living conditions of the workers. The Labour Member placed before the conference a Five-Year Programme which included promotion of fair wage agreements, industrial training and apprenticeship schemes, improvement of working conditions, elimination of contract labour, welfare and housing schemes, legislation for the institution of suitable machinery for the promotion of industrial peace, rationalization of the rates of dearness allowance and medical and monetary relief to workers during sickness.

The Labour Member said that in the past agricultural labour had been almost completely neglected by the Central and Provincial Governments and the Central Government was now instituting an enquiry into the conditions of farm workers. Despite the difficulties inherent in the problem, he urged the provincial Labour Ministers to devise methods for preventing the wages of agricultural workers from sliding below the minimum. Government fully recognized the need of a uniform labour code for the entire country. He therefore suggested that all major legislation regarding labour should be a Central subject but the provinces should be responsible for administration and inspection. Uniformity in labour legislation was to be achieved through the instrumentality of the Provincial Labour Ministers' Conference, which in future would also be attended by the Labour Ministers of the Indian States. Over one-sixth of the industrial establishments, mines and plantations in the country were located in the States, giving employment to nearly 536,000 workers. Their importance is bound to increase with further industrial expansion. The States cannot be indifferent to what is happening in matters relating to labour policy and administration in the provinces nor can the provinces afford

to ignore labour conditions in the States in formulating and executing their labour policy. It was to their mutual interest, therefore, that they should all follow a uniform policy.

Industrial strikes and lock-outs are the result of economic warfare between capital and labour which affects not only the parties concerned but the entire community. Hence the obligation of the State to intervene in trade disputes to reconcile conflicting interests and promote public welfare. The Trade Disputes Act of 1929 merely made provision for the machinery for settlement of disputes while leaving it to the option of the employer and the employee to make use of this machinery. It therefore proved inadequate and ineffectual for maintaining industrial peace. War-time experience of the regulation of industrial relations under Rule 81A of the Defence of India Regulations convinced Government that it was essential to arm itself with powers to refer disputes to adjudication and to enforce the awards. The Interim Government therefore embodied the principle of compulsory adjudication in its new Industrial Relations Bill. In case the employer and the employee could not come to an agreement through enquiry and conciliation, the Provincial Government could refer the dispute to adjudication and enforce the award *in toto* or in part. Measures for preventing illegal strikes were made more stringent in the case of public utility services and the Provincial Governments were empowered to declare any essential industry to be a public utility service.

It should not, however, be understood that by making provision for compulsory adjudication the Interim Government had placed an embargo on collective bargaining or underrated the importance of voluntary negotiations for settlement of industrial disputes. The new Bill contained provisions for the constitution of Works Committees of the representatives of employers and workers to remove the causes of friction between them in their day-to-day work and to promote measures for securing amity and good relations. The Bill also provided for the constitution of Industrial Tribunals, consisting of independent persons possessing qualifications ordinarily required of a Judge of a High Court, to adjudicate on disputes referred to them. Reference to an Industrial Tribunal was to be made not only where either of the parties

to a dispute desired it, but also where the appropriate Government considered it expedient in the public interest to make such a reference. Thus the new Bill is an eminently reasonable synthesis of the workers' right to strike and the employers' right to obtain a regular supply of labour for running the industry.

Well-organized labour is a *sine qua non* of industrial peace and prosperity. The machinery of industrial peace cannot function smoothly without a vigorous trade union movement developed on sound principles. Employers in India, relying on their strength and influence, have very often tended to hinder rather than help the growth of such a trade union movement. The Interim Government moved a Bill amending the Trade Union Act of 1926 to make statutory provision under which trade unions fulfilling certain conditions would be entitled to recognition by employers. According to the Bill, any labour union of 12 months' standing prior to the date of application for recognition and which was of the specified representative character could apply for recognition by the employers. The Provincial Governments were empowered to lay down the conditions which must be fulfilled by a union if it was to be considered as a representative union. For enjoying the privileges of statutory recognition the unions, however, had to fulfil certain fundamental obligations. Participation in illegal strikes, for instance, or submission of false statements or returns entailed the loss of statutory recognition. Employers too had to observe certain obligations. Interference by employers with the right of workers to organize, form, join or assist trade unions, interference with the formation or administration of any trade union, encouraging or discouraging membership of any trade union by discriminatory treatment of employees or penalizing workers for making allegations or giving evidence in enquiries or proceedings relating to trade union matters were declared 'unfair practices'. The ultimate decision in all disputes regarding statutory recognition was to lie with the appropriate Government.

In the sphere of international labour, the Interim Government stood for the aims and ideals of the International Labour Organization. It fully appreciated the value of India's connexions with the I.L.O. and expressed its determination

to intensify them. In reply to the I.L.O. Chief's greetings to the Interim Government, Pt. Nehru and Mr Jagivan Ram stated, "We are deeply appreciative of the value to India of her close associations with the I.L.O. during the last 25 years, and hope that the Organization in the years to come will make it one of its primary and urgent tasks to secure an effective application of the principles of the Philadelphia Declaration to the peoples of the less developed countries of the world, dependent or self-governing." The Indian Delegates to the Montreal Session of the I.L.O. pleaded for adequate representation of Asian countries on the I.L.O. They also pressed for statutory provisions in the I.L.O. Constitution for holding Regional Conferences. A Regional Conference for Asia was to be held in India in the month of October, 1947, to discuss the problems of social security, enforcement of social standards embodied in the I.L.O. Conventions and Recommendations not yet ratified and the general economic background of social policy, including problems of industrialization. India, China, Thailand, Burma, Ceylon, Indo-China, Indonesia and Malaya would be sending their representatives to the Conference, which would be the first of its kind in the whole of Asia, and the Interim Government of India could be trusted to give a lead to all Asian countries in the sphere of social and labour legislation, for, in the words of Mr S. Lal, the Indian delegate to the Montreal Conference, "We hold pride of place in Asia and our record is not below the world average."

### Transport Policy

"It must be brought home to all that the Railways owned by the Government of India today have been fully redeemed from the stranglehold of foreign capital and there is not a pie of foreign capital invested in them which can in any way influence the decisions and policies of Government. This naturally means that the biggest national asset now being managed by Government on behalf of the people must no longer be considered an instrument of exploitation by foreign or Indian capitalists"—these remarks of the Hon. Mr Asaf Ali, the Transport Member of the Interim Government, at the time of the Indian Railway Conference, mark a great change

in the position of railways which calls for a corresponding change in the attitude of the public towards them. Indian Railways which had so far functioned as instruments of exploitation in the hands of an alien Government or as mere 'money-collecting drudges' were "to approximate, as closely as possible," in the words of the Transport Member, "to the demands of public utility and render such service to the country as a whole as enlightened national interest dictated," which indicated a radical change in the general outlook of the Railway Administration in India.

### Integrated Transport System

The Interim Government were convinced of the necessity for the co-ordination of the entire Rail, Road and Waterways systems for the maximum development of the vast economic resources of the country. For industrial development as well as for strategic considerations, every part of the country was to be linked up with every other part. Addressing the ninth session of the Transport Advisory Council, the Hon. Mr Asaf Ali said, "The cardinal points of transport policy which, in my opinion, should guide our deliberations are the territorial unity of the country and the evolution of a co-ordinated scheme for all forms of transport. Whatever the future constitution of the country, Highways, Railways and Airways will have to be planned and developed from the long-range point of view of knitting all the territorial units of the country into an integrated whole." The ultimate goal of the Interim Government was to establish a Joint Transport Board as the supreme co-ordinating body with the widest possible jurisdiction over all forms of transport. To begin with, the Interim Government wished to encourage the formation of tripartite companies (on the lines of the White Paper) so far as passenger transport was concerned. The scheme would ensure substantial participation by all the three forms of transport. Long-distance and heavy goods traffic was to be reserved for railways, while the motor services were to be given full liberty to serve short-distance and door-to-door traffic. The problem of Rail-River co-ordination was also engaging the attention of Government and an *ad hoc* conference was to be called to consider the co-ordination of River and

Rail transport systems, particularly in the North-Eastern zone of India. Government also provided for the appointment of representatives of the Inland Steam Vessel Companies on the Provincial Transport Authorities. Government were also considering ways and means to co-ordinate railways and coastal shipping which had been very much neglected in the past. The Interim Government were also giving the highest possible priority to the construction of national highways throughout the length and breadth of the country and Provincial Governments were asked to undertake construction of arterial roads at the earliest possible date.

### Rates Policy

The Railway Rates Policy of the Interim Government was based on the principle of charging what the traffic could bear as Government considered it to be the only just and workable principle. Addressing the 50th Annual Session of the Indian Railway Conference Association, the Transport Member observed, "Transport service, whether for passengers or goods, is a salable commodity which must be adjusted in the open market according to the prevailing level of prices." The Railways proposed to spend huge sums on expansion and improvement schemes. They had to fulfil the enhanced financial commitments arising out of the Adjudicator's award on pay rates and the Pay Commission's recommendations. Budget trends made it quite clear that the tide of prosperity was receding. The President of the Conference envisaged a deficit of Rs. 10.4 crores in the current year and by 1949-50 it might go up to Rs. 80 crores. In order to meet this heavy deficit as also the increased expenditure on development and welfare schemes, the Railways would have to find ways and means for increasing earnings on the one hand and effecting necessary economies in their operation and organization on the other. Recurring deficits might necessitate the raising of rates and fares. But the over-all prospects for the future were far from dismal. The country was planning for rapid industrialization which would stimulate trade and industry in the coming years. This should mean increased movements of goods both internal and external and consequently the coming years might not be as lean as the budget trends

foreshadowed. There might be a temporary enhancement of rates and fares, but the inflationary factors being still in the ascendant, Government could not contemplate the stabilization of the railway rates at any particular level. A high-level committee was appointed to suggest ways and means of effecting prudent economies in all branches of railway administration on the one hand and of increasing earnings on the other, in order to tide over lean years and to finance development schemes.

The Interim Government, not satisfied with the present level of efficiency or adequacy of the railway services, proposed to utilize the latest scientific researches and inventions for increasing speed and comfort on railways. In this connexion the Transport Member stressed the need of a Central Scientific Research Institute to carry on researches for increasing the efficiency of the railway services. The Interim Government attached the utmost importance to the manufacture of locomotives in this country. "Our most urgent need is to start building the locomotives we require and the Railway Board has now matured a plan which aims at producing the bulk of the locomotives and boilers required within a relatively short period, say, about three years from now," said the Hon. Mr Asaf Ali in his address to the Railway Conference.

The foregoing analysis of some aspects of the economic policy and projects pursued by the Interim Government is enough to convince the reader that these schemes and programmes were essentially, if not inevitably, of an interim, or tentative character. The Interim Government had inherited the legacies of an alien bureaucratic Government at a time when the aftermath of war, with its unsolved problems of reconversion and stabilization, had aggravated the economic disequilibrium and maladjustments inherent in a six-year global conflict of unprecedented dimensions. It was functioning under various kinds of political and other limitations. But when all is said and done, for the first time in modern history the destiny of the country was in the hands of the sons of the soil, and in this lay the promise for the future.

### Scope of Union Subjects

For the purposes of our present study, we shall confine ourselves only to the Central subjects and powers and the economic implications of the grouping scheme. An analysis of the provisions shows that the Union Government has been entrusted with Foreign Affairs, Defence and Communications on an all-India basis. The Central Government has also been armed with powers necessary to raise finances for discharging its functions. The residuary powers and subjects have been vested in the Provinces and States who may, if they choose to, cede any of the provincial subjects to the Group Governments. Thus in the economic sphere three authorities would function—the Union Government, the Provincial Governments and the Group Governments. Now let us examine the scope of the proposed Union subjects from the economic point of view. It may be stated at once that the plan has merely named the subjects ; it has neither defined their scope nor envisaged their economic consequences. Our discussion of the Union subjects must necessarily be in the light of modern conditions as prevailing in present-day democratic regimes.

*Defence* : Let us take Defence first. Modern Defence is not a simple affair ; it is not merely hiring a few soldiers and sailors and providing them with guns and ships. The organization of defence in modern times against external aggression or internal disorder requires total control and regulation of the entire national life according to a well-thought-out plan. It is indeed no exaggeration to say that modern defence is the total mobilization of the nation's material and man-power resources. Especially in modern warfare, which is total as well as global, no effective defence is possible unless the entire administrative machinery and industrial structure of the country is geared to the war effort and integrated with its defence mechanism no less than the three fighting services. National defence must therefore necessarily involve mobilization on the economic front as well. That is why modern defence includes not only the mobilization of the army, navy and air force but also regulation of man power, control over production, diversion of capital and labour to defence industries, control of food, communications, export and import, etc. The all-embracing character of national defence as pervading

the entire life of the community was fully recognized during the War. Wartime defence measures as also the decision of the various countries to continue them in peace time clearly reveal the tendency towards greater centralization of powers in the defence authority of the country. It is hoped that the Constituent Assembly will take cognizance of this fact and arm the Union with sufficient powers to ensure in times of emergency—war or internal disturbances—a total and effective mobilization of the nation's resources. The Defence Minister of the Indian Union will be powerless if he has not the authority to mobilize the entire man-power and economic resources according to the exigencies of the situation.

*Foreign Affairs* : Foreign Affairs today do not mean the mere signing of treaties or exchange of diplomatic representatives. Treaties between two modern nations are governed among other things by mutual economic interests. Trade and commercial relations bind nations more strongly than formal diplomatic ties. Economic interests shape and sustain political affinities. In modern times it is impossible to isolate internal political issues from external economic factors. Pandit Jawaharlal Nehru's views on foreign affairs are in consonance with modern conceptions of foreign policy. Explaining his ideas on foreign affairs at a press conference in Bombay on 10th July, 1946, Pandit Nehru said, "External Affairs inevitably include foreign trade policy. In fact, tariff is connected with foreign trade. You cannot allow each unit or province to carry on a separate type of foreign credit and trade policy." Any student of international affairs will admit that foreign affairs are interlinked with foreign trade, tariffs, credit, exchange control and shipping. But the Cabinet Mission Plan has not made it clear what subjects will come under foreign affairs. Nor is it clear whether India will be represented at the various international economic conferences by the Union Centre or by the provinces or by the groups proposed to be set up. Divergent economic policies if expressed or pursued by different fragments of the country at international conferences would only disintegrate India's authority and influence in the political sphere. To quote the *Eastern Economist*, "While external affairs are Union subjects, all non-political international affairs will fall outside the scope

of the Centre. Shall India, as one unit, be represented at the International Commercial, Monetary, Agricultural, Economic and other conferences and on the important international economic institutions which have been set up ? If she is so represented, how can the Union Centre, with limited powers, implement the decisions made ? In fact, we may have a common foreign political policy, but as many foreign economic policies as there are provinces or groups. The dichotomy between external political affairs and external economic affairs which is an inescapable potent feature of the Cabinet Mission proposals will be either unworkable in practice or disastrous in consequence." (*Eastern Economist*, 31st May, 1946.)

*Communications* : Similarly the scope of communications has been left vague and undefined. It is not clear whether communications will be controlled by the Union Government merely to render defence effective or whether communications can legitimately be regulated to serve all-India development plans. In the former case, communications policy will be controlled by two authorities—for defence purposes by the Union Government, for commercial and industrial purposes by the units or groups. The history of Indian Railways should serve as an illustration of the disastrous consequences of dual control. Thus whatever progress has been achieved in co-ordinating the transport and communications policy of the country will be reversed in the retrograde direction. It is difficult to calculate the adverse effects of this disintegration on the financial position of a transport system of sub-continental dimensions. The Cabinet Mission proposals are also not quite clear whether communications include control over ports, air navigation, river navigation and national highways. Each of these exercises vital influence on the economic activities of the provinces and states.

The above analysis clearly shows that the Cabinet Mission proposals have left the scope of the Union subjects vague and ambiguous. In the absence of a complete picture of the functions and powers of the Union Government it is difficult to assess the extent of the authority that has been conferred on the Union to raise finance for the Union subjects. Expenditure estimates for 1946-47 indicate that on External Affairs, railways, posts and telegraphs and defence, the Centre

spends Rs. 280·70 crores out of the total expenditure of Rs. 390 crores to be met from revenue. In view of India's expanding diplomatic relations with foreign countries, the modernization and re-organization of the defence forces and the projected development of communications, Central expenditure is bound to go up, while some of the important sources of revenue which are with the Centre under the Government of India Act of 1935 will, according to the plan, pass on to the units or groups : for example, currency and coinage, customs, tariffs, corporation tax and excise. Even apart from considerations of adequacy, Central control over these sources of revenue is essential in the interest of the economic unity of the country. Another controversial question is that of the extent of the Union's powers to raise finance from acceding Indian States. It is doubtful whether the Indian States after ceding defence, foreign policy and communications to the Union Government would welcome the intrusion of the Union Government in the economic sphere. Will the Indian States tolerate the infringement of their economic sovereignty by the Union ? Some of the bigger States at least might like to retain their economic entity and freedom to pursue independent economic policies. Under these circumstances, the power of the Union Government to raise finances from the acceding States would be further circumscribed. In our opinion, it would be fiscal suicide on the part of the Centre to depend on doles from the units. If the Union Government is to function as the symbol of India's unity in matters of defence, foreign affairs and communications, it must keep the necessary weapons like currency, customs and tariff in its fiscal armoury. We suggest that not only should the existing financial powers of the Centre be retained intact but also that as the responsibilities of the Centre grow, as they must, its financial powers must also grow likewise.

### Need of a Strong Centre for Planning

The above discussion on the scope of the Union subjects and powers reveals that the hybrid, three-tier political constitution proposed by the Cabinet Mission can hardly create the administrative conditions necessary for planning on a national scale. The financial powers of the Union are limited to

would strain every nerve to achieve self-sufficiency even by uneconomic methods. Tariff barriers would undo all the benefits of protection now enjoyed by Indian industries. If Groups B and C decide to keep out industrial commodities like sugar and textiles, iron and steel, etc. from Group A, Group A would lose its home market and suffer heavy loss. Then Group A may retaliate by imposing duties on agricultural products moving in from Group B or C. Both the important ports of Calcutta and Karachi are situated in Groups B and C respectively. Tariff walls may be erected at these ports for penalizing the rest of India. We shudder to think of the consequences if India is divided into fragments for purposes of internal trade. Restrictions and hindrances in the normal movement of goods, capital and labour from one part of the country to another would disrupt the entire economic system. Interference with the free inter-provincial flow of labour would result in surplus labour in certain areas like the United Provinces and Bihar and shortage of labour in other areas like Bengal and Assam.

There is another important question : to whom shall Indian industries look for protection ? Hitherto they were given protection by the Central Government. Under the Cabinet Mission plan the Groups or units were to be responsible for their industrial development. Tariff war among units or Groups would expose Indian industries to foreign competition and lead to disaster. 'Economic raids' from outside would become a regular feature of Indian economy. Furthermore, India has to define her tariff policy at international conferences on trade and employment. She must follow a uniform tariff policy for the whole country. It would be a severe blow to her economic and credit position if she speaks with divided voices at such international gatherings. If India wishes to take advantage of her territorial vastness, geographical position and her developed trade and industry in the East, she must function as one compact land mass with a uniform trade and tariff policy. The nations of South-East Asia look to India for leadership. Would India be able to exert any influence among her neighbours unless she pursues a unified trade and tariff policy ?

Again, in view of the food situation in the country it

is essential that the Centre should have plenary powers in matters of food administration and agricultural development. The framers of the constitution must take a lesson from the Bengal famine. They should not leave the subject of food administration and co-ordination of agricultural development with the units or Groups. As some of the provinces are surplus provinces in matters of food and others deficit, there will always be need of a central food distributing and administrative machinery to secure a just and equitable allocation of the available food supply. In this connexion we can do no better than quote the Famine Enquiry Commission. "In envisaging the future of food administration in the country, the problems which await solution in the future and the need for the Centre, the Provinces as well as the States to act together as one unit in the planning and execution of the measures necessary to solve these problems, we are convinced that the establishment of a permanent and recognized machinery for co-ordinating food administration at the Centre as well as in the Provinces and States is necessary." (Famine Enquiry Commission, Final Report, page 66.)

But the problem is not an isolated one. It is vitally connected with the development and planning of agriculture. Therefore, the planning and execution of a common food policy involves the control, co-ordination and regulation of the entire agricultural sector of the national economy. In a vast agricultural country like India, agricultural planning implies planning of crops and control of sub-continental rivers and basins. To quote Dr Radhakamal Mukerjee again, "It is only this kind of total agricultural planning conceived and implemented for whole river plains which cover more than one Province and State that can ensure the people protection, ease and security of living." Total agricultural planning covers land tenure systems, irrigation, flood control, hydro-electric power, crop planning, price control of agricultural produce and credit and marketing. But this does not mean that the Centre should function as an all-powerful authority leaving no initiative with the Provinces and States. The Centre should only plan, co-ordinate and scrutinize progress of the schemes while the actual execution of the plans should be done by the Provinces and States. The Damodar

Valley Project will make the point clear. The Damodar river originates in Bihar and flows through Bengal to the sea. All substantial construction works like construction of dams, hydro-electric power stations, etc. will be in Bihar but a very substantial portion of the benefits will accrue to Bengal for the stream will irrigate more than 800,000 acres of land in Bengal and Bengal would also consume the electric power generated. The question arises : who should finance and administer such schemes of inter-provincial extent and concern ? Apparently the interests of the concerned provinces alone seem to be involved but in reality the whole country gains if any of its constituent parts become wealthier and happier. The world-famous Tennessee Valley Authority operates in and benefits seven States. But it was financed by the Federal Government and not by any of the States. Nature has imposed a unity upon Indian agriculture by distributing her rivers throughout the sub-continent. The need for a comprehensive river basin control system is inherent in India's agricultural economy. Louis Fischer writing on "Unity Essential for Planned Economic Progress" in *The Hindustan Times*, says, "Nature made India a big country. It is a tremendous advantage. It is one of the factors that has made the United States rich and powerful. It is one of the factors in the economic expansion of Russia. Why should men destroy the gift of nature ?" It is to be hoped that the framers of the constitution will preserve this natural unity of the country and include agricultural planning and food administration in the list of Union subjects.

### **Pakistan and Economic Regionalism**

The advocates of Pakistan justify the partition of India by bringing in the analogy of economic regionalism. The Provinces grouped together in Eastern and Western Pakistan, in their opinion, constitute self-sufficient economic units capable of developing their industry and agriculture. Before we examine this contention it would be profitable to discuss the term 'economic region'. An economic region is a geographical unit based upon the unity of economic interests of the inhabitants of the area. Natural resources, man-power and cultural forces forge the unity which binds a region together.

Mountains, rivers and climatic belts are great unifying forces. Political and economic boundaries are immensely influenced by them. Thus an economic region is not the creation of politics but of nature. It is not an artificial but an organic growth of an area knit together by economic interests. Demarcation of Groups or Provinces on communal or political considerations can hardly be considered economic regionalism. The Pakistan Zones are neither developed areas nor do they command adequate potential resources to raise the standard of living of their people. This statement is made not because of any ideological bias but on the basis of the irrefutable facts of geography and economics. Let us now examine the economic resources of the North-Western and North-Eastern Zones separately.

### North-Eastern Zone

*Agriculture and Food* : Limited agricultural land and a steadily increasing population is the crux of the tragic economic situation of Bengal. According to the Census of 1941, the total population of Bengal was 6 crores and 3 lakhs with 2,44,66,300 acres under the plough, or a cropped area of only 0.4 acre per head. The area of new land which could be brought under the plough is also limited; it is 1,06,40,749 acres or 0.17 acre per head of the population. Thus the peasantry of Bengal has very meagre holdings at present with no considerable new cultivable land to bring under the plough. This will be further restricted by the Pakistan boundaries. The percentage of cultivated and that of cultivable land to the total area in the Muslim Zone is 74.4 and 25.6; while in the non-Muslim zone it is 59.4 and 40.6 respectively. (Rajendra Prasad : *India Divided*, page 273.) Consequently the peasants in the Muslim Zone will have lesser scope for expanding their agricultural land. And it must be borne in mind that the problem of *lebensraum* is already becoming a serious one in the province of Bengal. According to the 1941 Census the density of population in Bengal is 779 per square mile, being the highest in the country. In some of the districts of Bengal like Faridpur, Naokhali, Dacca and Tipperah, which fall in the Muslim Zone, the density of population exceeds even one thousand per square mile. (The Famine

Enquiry Commission, Final Report, page 76.) Increasing population pressure on a limited land area has given rise to a sort of Malthusian situation in Bengal. Bengal was a deficit Province in food even before the War. Its annual requirements are estimated by experts at 43.2 to 50.1 crore maunds at the rate of 12 to 14 chhataks for each adult. (Azizul Haque : *Man Behind the Plough* ; K. C. Ghosh : *Famines in Bengal*.) Taking into account the annual production there is a deficit of about 16 crore maunds. "The average annual net imports of rice according to the recorded statistics for the five years ending 1941-42 were approximately 132,000 tons. In addition, there were unrecorded imports by country boats from Assam and from Arakan in Burma. The average annual net imports of wheat for the same period were 249,000 tons. (Famine Enquiry Commission, Final Report, page 8). Increasing population, paucity of unutilled cultivable land that can be brought under the plough and chronic food deficit—all point to the grim conclusion that agricultural expansion in Bengal can never keep pace with the number of mouths multiplying year by year. Bengal lost millions of her sons and daughters in the great famine of 1943. Her food situation is still grave. It will become explosive if she is cut off from the rest of India.

Let us now examine the position of cash crops in the province. Jute ranks first among the non-food crops from the point of acreage and value. Bengal holds practically a monopoly in jute not only in India but in the whole world. Out of the total area of 21,54,800 acres under jute, the major part falls within the Muslim zone. The eastern and northern Muslim majority districts produce the major part of the crop estimated at 95 lakh bales annually. Jute occupies an important place in the rural economy of the province and yet it is "unremunerative and undependable". The middle-man has made it unremunerative for the cultivator. He grabs a substantial portion of the manufacturer's price for jute. Poor holding capacity of the primary producer and inadequate means of transport leave the cultivator at the mercy of the middle-man. In many areas the cultivator has to choose between hunger and jute cultivation and naturally he chooses the latter. Besides the middle-man's profit, trade manipulations—largely indulged in by foreign capitalists and 'big

business'—cause heavy fluctuations in the price of jute and jute products. Jute prices have fluctuated in the ten year period 1925-1935 between Rs. 18-13-0 and Rs. 3-8-0 per maund. (Azizul Haque : *Man Behind the Plough*, page 66.) Price fluctuations thus make this 'unremunerative' source of income also 'undependable' for the jute cultivator. It may be argued that these evils could be removed through nationalization of the raw jute trade. "But the mere fact that the task of collection of jute from the individual growers is to be performed by some sort of Government Agency will not add to the growers' holding power. If the transport arrangements are not improved, Government would be disposed to transport jute in a hurry during the short period, if it is possible to do so, and it is quite conceivable that they will teach the grower to dispose off his product early. In the alternative, exposure to sun and rains may cause considerable losses. On his own part, the need for cash will force the cultivator to part with the jute at an early date to be able to meet his monetary obligations." (*The Eastern Economist*, 25th April, 1947.) Even if the raw jute trade is nationalized, it will be difficult for Pakistan to control jute prices for most of the jute mills fall in the Hindu majority area.

DISTRIBUTION OF THE JUTE INDUSTRY IN BENGAL (1939)  
(*The Location of Industry in India*, issued by the Economic Adviser to the Government of India, page 28)

District		No. of factories	No. of workers
Howrah			
79% non-Muslims	..	24	62,552
24-Parganas			
66.4% non-Muslims	..	57	1,68,835
Hooghly			
84.9% non-Muslims	..	16	49,842
Total	..	97	2,81,229

Tea is the second most important money crop of Bengal and Assam but the Muslim Zone is poor in this respect. "Out of a total area of 2,03,100 acres under tea in Bengal in 1936-37 only 7,700 acres fall in the Muslim Zone." (Rajendra Prasad : *India Divided*.) In the case of Assam a little over 50% of the area falls in the Muslim Zone. But tea being mainly a commodity of export trade must pass through Calcutta which has a non-Muslim population of 73.6% Export and tariff restrictions if resorted to as a retaliatory measure by the non-Muslim areas would strangle the tea trade of the Muslim Zone. Of sugar, oilseeds and pulses there is little to be said except that Bengal imports more than 80% of its requirements from other provinces.

*Mineral Wealth* : Technological and industrial power in the modern world is based on the trinity of coal, iron and oil. They are essential in peace as well as in war. At least the first two, coal and iron, must be available in abundance and in combination. They are like the two wheels of the industrial chariot. The Muslim Zone, however, is very poor in these basic minerals. Almost all the coal-fields fall outside the Muslim Zone. Most of the coal mines are situated in the District of Burdwan which has a non-Muslim majority of 81.6%. (The Coal-fields Committee Report.)

If the Muslim Zone of Bengal is poor in coal, its position is still worse with regard to iron ore and the iron and steel industry. Out of the 17 iron and steel works in British India 6 are situated in Bengal; but they are all inside the non-Muslim Zone. The following table (from *The Location of Industry in India*, Economic Adviser to the Government of India) shows the location of iron and steel works in Bengal in 1939:

Districts	Percentage of non-Muslim population	No. of Factories	No. of Workers
Howrah .. ..	79.9	1	593
Burdwan .. ..	81.6	3	16,043
24-Parganas .. ..	66.4	2	278
Total .. ..		6	16,914

Neither is the Muslim Zone rich in oil resources. Most of the oil-fields are situated in the districts of Digboi and the adjoining areas which have a non-Muslim population of over 50 per cent. Bauxite, the essential raw material for the aluminium industry, is not available in Pakistan at all, as the whole of it (15,150 tons in 1937) is to be found in Bihar and the Central Provinces. Cement which is essential for construction works remains almost a monopoly of the non-Muslim majority districts. Bengal had only one cement factory in 1939 and that was situated in the 24 Parganas which is a non-Muslim majority district. Lack of essential mineral resources will thus be the greatest obstacle in the industrial progress of the Muslim Zone. Mr Charles H. Behre, Professor of Geology, Columbia University, has summed up the position thus in *Foreign Affairs* : "India's mineral resources are so distributed between the parts of India in which Hindu and Muslim people preponderate that if India were divided on the basis of religious population the Hindu State would be rich and the Muslim State would be conspicuously poor." Dr Radhakamal Mukerjee has also arrived at a similar conclusion : "With the division of the country into Hindustan and Pakistan, Hindustan will have the virtual monopoly of coal (90%) and iron (92%), considerable reserves of manganese, copper and bauxite . . . . On the whole, its (Pakistan's) mineral wealth will be only about 5% of that of British India as a whole . . . Pakistan cannot be an industrial state and thus lacks the whereabouts of development of a vigorous democratic political community. It will remain largely pastoral and agricultural in the future due to lack of important mineral resources." (*An Economist Looks at Pakistan*, page 20.) Sir Homi Mody and Dr John Matthai, who were appointed by the Sapru Committee to examine the economic aspects of Pakistan, also reached the same conclusion. "Division of India", say they, "would weaken both Pakistan and Hindustan but the former would suffer more than the latter . . . . In respect of mineral resources, lacking coal and iron and ferro-alloys, the position of Pakistan would be substantially weaker and would lack the necessary mineral base for large-scale industrial development which is so essential for her future progress."

*Industry* : While considering the industrial position of

Bengal an important fact to be borne in mind, is that the major industries in the Province are mainly concentrated in and around Calcutta, an area outside the Muslim Zone. Consequently the statistics about industries in Bengal are apt to be misleading and have often been misrepresented by the supporters of Pakistan. Prof. Reginald Coupland has ably exposed this tendentious use of statistics. On page 96 of his *The Future of India*, he says: "Bengal as it is now, with 20% of the population of British India, possesses 33% of its industry. In Eastern Bengal without Calcutta the percentage of British Indian industry falls to 2.7." Of the 97 jute mills in Bengal the Muslim Zone has not a single one. The Muslim Zone is also deficient in the cotton textile industry as it has got only 6 mills out of 29 in the whole of Bengal. In the iron and steel industry the Muslim Zone is almost bankrupt, as all the six works are situated in the non-Muslim Zone. The following table prepared by me on the basis of the *Location of Industry in India* (1939), issued by the Economic Adviser to the Government of India, summarizes the industrial position of the Muslim and non-Muslim Zones of Bengal.

**DISTRIBUTION OF LARGE-SCALE INDUSTRIES IN THE NON-MUSLIM AND MUSLIM ZONES OF BENGAL**

Industry	Non-Muslim Zone		Muslim Zone	
	No. of factories	No. of workers	No. of factories	No. of workers
Cotton .. ..	23	23,223	6	5,856
Jute .. ..	97	281,229	—	—
Iron & Steel .. ..	6	16,914	—	—
Paper .. ..	4	6,268	—	—
General Engineering .. ..	139	25,308	13	1,823
Chemical .. ..	17	3,717	1	84
Cement .. ..	1	238	—	—
Glass .. ..	10	1,865	2	415
Silk .. ..	6	1,886	—	—
Woollen .. ..	—	—	1	161
Soap .. ..	11	813	—	—

It may be argued that as a result of the political division of the Province the distribution of industries may also change thus rectifying their present uneven distribution. But we can only say that this contention is based on an ignorance of the industrial history of the country. A number of economic and natural factors are responsible for the localization of industries in and around Calcutta in the non-Muslim Zone. "For industries dependent on the export markets, the ports provided an ideal location. Calcutta enjoyed certain additional advantages in the form of cheap water transport and the proximity of raw materials and power resources." (*The Location of Industry in India*, page 7.) As regards the iron and steel industry it is obvious that proximity of iron ore and coal are essential. At present this combination is available only in the non-Muslim Zone. Similarly general engineering industries find their location according to the degree of industrial development of a particular area and the localization of coal and iron. The location of the glass industry is influenced by natural factors such as the existence of sand and coal and the availability of skilled labour. Similarly the chemical industry concentrates at places which are favourably situated in regard to raw materials, power and markets. Situation of the sources of raw materials, power and natural advantages of transport cannot be altered by any political readjustment. Separate political boundaries may create trade barriers between Muslim and non-Muslim Zones and only deprive each of the markets of the other.

### North-Western Zone

The total area of the Muslim majority districts in the North-Western Zone (excluding Native States) is 63,774 square miles with a population of 1,68,70,900, while the area of the non-Muslim districts is 35,314 square miles with a population of 1,15,47,919. Besides the fact that Hindus and Sikhs are in a majority in twelve districts it must be remembered that they have played an important part in the economic development of the Punjab. The non-Muslim holdings are approximately over 50% of the total. (The Punjab Hindu Board's Memorandum to the Sapru Committee.) Sikhs who live in the more productive districts own about 30% of the total

cultivated area of the Punjab. They pay Rs. 2,17,44,913 out of the total revenue of Rs. 4,38,13,277. The non-Muslims own more than 80% of the urban property and they pay more than 80% of the income-tax and urban property tax in the Punjab. (Sikh Leaders' Memorandum to the Sapru Committee.) "An overwhelmingly large proportion of the industrial enterprises, factories, mills, insurance companies, film industry, business and trade is in non-Muslim hands ; not so much by accident but by virtue of their skill, industry and special aptitude." In the North-Western Zone again, capital is mostly concentrated with the non-Muslims. Out of a total number of 58 banking concerns in the Punjab, the non-Muslims own 56 as against 2 owned by the Muslims. It is difficult to estimate the effects on the economic life of the Zone in case the capital and industrial enterprise at present employed in the Muslim area migrates to the non-Muslim area.

After detaching the non-Muslim majority districts from the North-Western Zone, its position as regards population and extent is as follows :

Province	Area (Sq. miles)	Population
Punjab (Muslim districts)	63,774	1,68,70,900
Sind .. .. ..	48,136	45,35,008
British Baluchistan ..	54,456	5,01,631
N.-W. F. Province ..	14,263	30,38,067
Total ..	1,80,629	2,49,45,606

Let us now proceed to examine the economic repercussions of partition in the North-Western Zone.

*Food and Agriculture :* The North-Western Zone may be said to be in a favourable position as regards food and agriculture. Natural fertility of soil, irrigational projects and

sparse population leave enough surplus with the Zone. Yet the picture is not as rosy as is usually depicted. At present the total area under food crops is 2,60,87,714 acres and the average annual production of all food grains comes to 19,27,65,300 maunds. (Agricultural Statistics of India). The total population of the Zone (including non-Muslim districts of the Punjab) in 1941 was 3,64,93,525. The annual food requirements of the Zone at the rate of 12 chhataks per day per adult come to 18,47,48,400 maunds. The annual production of foodgrains being 19,27,65,300 maunds, there is a surplus of 80,16,900 maunds every year. But this surplus is in fact largely illusory, for the North-Western Zone is not exempt from malnutrition or an increasing population. An enquiry conducted in 1933 by Sir John Megaw, one of the highest medical authorities under the Government of India, revealed the following facts about the Punjab. What is true of the Punjab applies with greater force to the other provinces of the Zone.

#### MALNUTRITION IN THE PUNJAB

(*An Enquiry into Certain Public Health Aspects of Village Life in India*, page 10)

	Percentage of well nourished	Percentage of poorly nourished	Percentage of very badly nourished
Punjab ..	42	38	20
Average for British India	39	41	20

From the above table it is evident that 58 per cent of the population (of the Punjab as well as of the other provinces of the Zone) is undernourished and has to be provided with more and better food so as to reach the nutritional standard. Provision has also to be made for the rapidly increasing population of the Zone. During the last fifty years, the population of the Zone has risen by more than

of the world's requirements of better quality sheet mica & covers a strip of about sixty by twelve miles. (*Our Economic Problems* : Wadia and Merchant, page 23.) In the absence of mica deposits in Pakistan, the prospects of an electrical goods industry are poor. Bauxite, the essential raw material for the aluminium industry, is also not available in Pakistan, but there are considerable deposits in the Central Provinces, Bihar and Assam. (*An Economist Looks at Pakistan* : Dr R. K Mukerjee, page 21.) The Zone is very poor in cement ; of the total quantity of 19,45,596 tons of limestone produced in British India in 1937, only 3,61,481 tons were produced in the Pakistan areas. Most of the sources for the raw material for cement are to be found in Bihar, Orissa, the Central Provinces and Berar and Madras. Mineral oil is to be found to some extent in the Punjab and the N.-W. F. P. and Baluchistan. The North-Western Zone produced 2,11,13,420 gallons while Hindustan produced 6,59,68,951 gallons in 1938. (*India Divided* : Rajendra Prasad, page 288.) But the oil springs of the Zone are fast drying up and a time may come when the Zone may have to face a scarcity of petroleum. "In many parts of the Punjab, however, and in the Baluchistan area, the rock fields have been too deeply truncated by agents of denudation or have been dislocated by earth movements and much of the original stores of oil have disappeared ; oil seepages are common enough but most of them appear to be mere 'shows,' not connected with reservoirs that can be tapped by artificial means." (*The Mineral Wealth of India* : Dr J. C. Brown, p. 60.) The Zone is however situated in a favourable position as regards chromite and sulphur. Baluchistan has virtually a monopoly of chromite. But neither of them is a basic mineral which by itself could prove helpful in developing large-scale industries. Thus the Zone is by no means self-sufficient with regard to basic minerals. It has oil but not coal and iron and in the absence of coal and iron, development of metallurgical and basic industries is well-nigh impossible.

*Industry* : The overall deficit position of the North-Western Zone in minerals reflects upon its industrial development and explains its backwardness. There were only 1175 large-scale industrial establishments (including Government

factories) in the Zone providing employment to 1,06,588 persons in 1939. The total number of factories in British India in 1939 was 10,466 employing 17,51,137 persons. The size of the individual factories in the Zone is also small as compared with that of British India as a whole. The average number of employees in a factory of the Zone is 90 while that in India is 167. (*India Divided* : Rajendra Prasad, page 295.) The small size of the factories in the Zone is proof of the limitations on industrial expansion in the Zone. Moreover, the percentage of seasonal factories to the total number of factories is larger in the North-Western Muslim Zone than in the rest of India, as shown by the following table :

	India		North-Western Muslim Zone	
	No. of factories	No. of workers	No. of factories	No. of workers
Perennial . . .	6055	12,88,400	543	40,848
Seasonal . . .	2953	2,51,727	541	37,716
Total . . .	9008	15,40,127	1084	78,564

The larger percentage of seasonal factories indicates that industrial employment in the Zone is seasonal and there is less stability in the volume of employment. Consequently industrial labour is more vulnerable to industrial fluctuations. Another inevitable inference is that seasonal industries are largely dependent on agriculture. Any set-back in agriculture, which is itself a highly precarious industry because of the vagaries of the monsoon, is bound to cause stoppage of work or diminution of activities in most of the industrial establishments. This constant threat to the industrial stability of the Zone will hinder its steady industrial expansion. Regular employment is an important desideratum for the permanent availability of skilled labour and for technical

progress. Another criterion for measuring the industrial progress of a region is the ratio of its industrial workers to its population. The following table shows the distribution of (i) population and (ii) industrial workers in the provinces of British India in 1939.

PERCENTAGE OF INDUSTRIAL WORKERS IN THE DIFFERENT PROVINCES

(*The Location of Industry in India*, page 9)

Provinces	Percentage of population in 1941 (p)	Percentage of industrial workers (i)	(i) (p)
Madras .. .. ..	12.7	9.7	0.76
Bombay .. .. ..	5.4	23.0	4.26
U. P. .. .. ..	14.1	8.0	0.57
Bihar .. .. ..	9.4	4.8	0.51
Orissa .. .. ..	2.2	0.3	0.14
C. P. & Berar .. .. ..	4.3	3.1	0.72
Assam .. .. ..	2.6	0.4	0.15
Ajmer-Merwara .. .. ..	0.1	0.7	7.00
Delhi .. .. ..	0.2	0.9	4.50
Bengal .. .. ..	15.5	28.7	1.85
Punjab .. .. ..	7.3	3.9	0.53
Sind .. .. ..	1.2	1.2	1.00
N.-W. F. P. .. .. ..	0.8	0.06	0.08
Baluchistan .. .. ..	0.1	0.1	1.00
<b>Total British India ..</b>	<b>76.0</b>	<b>84.9</b>	<b>1.12</b>

From the point of view of distribution of industries also the position of the Zone is not satisfactory. A very large number of industries are concentrated in the Punjab. The total number of factories in the Zone is 1084 out of which 752 are located in the Punjab, 307 in Sind, 18 in the N.-W. F. P. and 7 in Baluchistan. This uneven distribution of industrial activities is a drawback and may result in economic and social maladjustments and strategic risks.

The Zone has made very poor progress even in individual industries. Out of the total number of 396 cotton spinning and weaving mills in British India and the Indian States, there were only 8 mills in the Zone in 1942. (The Report of the Bombay Millowners' Association.) The position with regard to woollen mills is also not quite satisfactory. Out of sixteen woollen mills in British India there are only six in the Punjab and none in Sind, the N.-W. F. P. or Baluchistan. But of the 6 woollen mills, 5 are situated in the district of Amritsar which has a non-Muslim majority and falls outside the Zone. There is not a single iron and steel works in the Zone which thus lacks one of the most important key industries. The Zone is slightly in a better position with regard to general engineering workshops and foundries. Out of the total number of 424 workshops in the whole of British India, about 42 workshops are in the North-Western Zone. After excluding 28 workshops located in the non-Muslim majority districts of the Punjab, the Zone is in a hopeless position. With regard to the sugar industry it has only 2 small sugar factories. The Punjab has made very little progress during the last 20 years in spite of the fact that the province ranks next to the United Provinces and Bihar in the production of sugar-cane and is one of the most important sugar consuming provinces. Nor is there any scope for the expansion of the industry in the Zone as the climatic conditions are on the whole unfavourable to the production of cane of sufficient sucrose content to be suitable for the manufacture of sugar in competition with the factories situated in the United Provinces and Bihar. The province is also liable to frost which is sometimes severe enough to destroy the crop and to a greater or less extent affects the sucrose content of the cane. The Report of the Tariff Board on the Sugar Industry, 1931,

page 23.) The Zone has only three cement factories out of a total of 19 in British India and the Indian States. The Zone is practically deficient in the glass industry, for though there are two glass factories in the Punjab both of them fall in the non-Muslim area, *i.e.*, Ambala and Amritsar. There is no scope for the expansion of the industry in the Zone either, for the industry consumes large quantities of sand and coal and must therefore be located at a place where these heavy materials are available at a reasonable cost. Consequently the glass industry has declined in the Punjab. The Zone is also very poor in chemical, paper and leather industries. There are only two chemical works in Lahore and not a single paper or leather factory in the Muslim majority districts. It is clear from the above facts that the North-Western Zone is industrially backward. Judged from any point of view—number of factories, number of industrial workers, nature of industries, size of industrial establishments or development of individual industries—the Zone absolutely lags behind India in industrial progress and possibilities. Its population is predominantly agricultural and the standard of living is low. Nor are conditions likely to improve very much in the near future. The physico-environmental factors which have to a great extent determined the concentration of industries in particular regions cannot change nor can the distribution of the mineral and other material resources be modified by some sort of political legerdemain or re-alignment of boundaries or creation of separate sovereign States. A small State with a 'closed economy' will prove a hindrance to planning, market specialization and all-round development. The political disintegration of the country would only mean poverty, hunger and unemployment for all. Today the common man everywhere clamours for 'freedom from want' first and 'freedom of worship' and all other 'freedoms' afterwards. In the long run economic realities shatter political fantasies.

## CHAPTER IX

### NEW INDUSTRIAL POLICY

The industrial policy announced by the Government of India on 6th April, 1948, is a landmark in the history of industrial planning in the country. Though a somewhat similar policy had been formally announced by the alien bureaucratic Government in 1945, it only remained a blue-print on paper and was conveniently pigeon-holed after it had served its purpose of official 'window-dressing'. The new industrial policy, however, derives its significance from the fact that it was enunciated by a fully representative and responsible Government under the leadership of the Indian National Congress which had been the spearhead of the nation's struggle for political independence—the essential prerequisite of all authentic national planning. It was based, moreover, on the realities of the situation and backed by the determination of a sovereign national Government to implement it in full.

It would be appropriate to recapitulate the circumstances that preceded this momentous announcement. With the attainment of Dominion Status on the 15th of August, 1947, India was on the threshold of a new era and there was a remarkable upsurge of hope and enthusiasm all over the country. The Swaraj of one's dreams was at last within the realm of practical politics, and every section of the people was eager to play its part in the building of a New India. The industrialists were impatient to ascertain their role in the new dispensation, and made incessant appeals in the press and on the platform, in the legislatures and the meetings of commercial bodies, to elicit the intentions of Government with regard to the industrialization of the country and the function of private enterprise therein. Mr M. A. Master in his presidential address at the annual meeting of the Federation of the Indian Chambers of Commerce appealed to the Prime Minister "to give serious thought to the place of private enterprise in the future industrialization of India" and "to announce the policy of the State as to the pattern of the future economy of the country and the place of private enterprise in the development of industries." The working

class was no less backward in pressing its claims—through meetings, processions, demonstrations and strikes—for a place in the sun and a better deal for itself. Government being the custodian of the welfare of the community as a whole and pledged to the principle of a just and equalitarian social order, itself realized the need of formulating and announcing its economic and industrial policy. Members of Government in their individual capacity had been expressing their views on industrial policy in their speeches in and outside the Dominion Parliament. But these speeches were very often contradictory, incomplete and vague, and instead of clarifying the issues tended to confuse the public mind. The publication of the Report of the Economic Programme Committee of the All-India Congress Committee and its general ratification by the A.I.C.C. had also created doubts and misgivings among both labour and capital, for the report only outlined the ideal to be achieved and not a programme to be implemented.

Introducing the resolution on the new industrial policy in the Dominion Parliament, the Minister for Industry and Supply, Dr S. P. Mookerjee, expressed the hope that "it would succeed in removing uncertainties and misgivings particularly in regard to private enterprise and also in respect of the position of capital and labour." The statements issued by important individuals as well as by representatives of commercial bodies and reactions of the press are sufficient indications that such 'uncertainties and misgivings' have been removed to a very large extent. The industrialists at last know where they stand at least for the next ten years; for they have been assured that in the sphere of existing undertakings "they will be allowed all facilities for efficient working and reasonable expansion." Government's elucidation that "ability to achieve the main objectives should determine the immediate extent of State responsibility and the limits to private enterprise" and its acknowledgement that "under the present conditions, the mechanism and the resources of the State may not permit it to function forthwith in industry as widely as desirable" permit the inference that even after the lapse of ten years private enterprise may, if necessary, be given another lease of life. If, however, the State

is able to develop adequately in machinery and resources to effectively acquire private enterprise, it has given an assurance that "the fundamental rights guaranteed by the constitution will be observed and compensation will be awarded on a fair and equitable basis." Thus the *status quo* is to continue for ten years in the first instance with the possibility of its further extension due to the limited mechanism and resources of the State and in case this policy is reversed, private enterprise has been guaranteed compensation on a fair and equitable basis.

The fundamental objective of the industrial policy, stated in general terms, is "to establish a social order where justice and equality of opportunity shall be secured to all the people." But this is an ideal, the achievement of which may take a very long time. Hence "the immediate objective is to provide educational facilities and health services on a much wider scale, and to promote a rapid rise in the standard of living of the people by exploiting the latent resources of the country, increasing production and offering opportunities to all for employment in the service of the community." Under the present conditions emphasis would naturally be on increasing production, for a mere re-distribution of existing wealth would only mean the distribution of scarcity. The resolution stated that special efforts should be made to increase the production of capital equipment, of basic consumer goods and of commodities the export of which will increase earnings of scarce foreign exchange. It may be said that this official exposition of the objectives of industrial policy met with general approval in the country.

Notwithstanding the fact that the statement confines itself to Government's industrial policy, it may be observed that there are omissions in it in respect of two important matters. Keeping in view India's general industrial backwardness and her position till recently of an economic dependency in the British Empire, it is essential to shape our economic policy so as to attain national self-sufficiency as speedily as possible. The National Planning Committee appointed by the Indian National Congress has laid considerable emphasis on this point. "The principal objective of planning the national economy should be to attain, as far as possible,

national self-sufficiency and not primarily for purposes of foreign markets." (Handbook of the National Planning Committee, 1946, p. 20.) The Planning Advisory Board in its Report (on page 4) has endorsed the view that national self-sufficiency "should certainly be aimed at in certain spheres." The other lacuna is with regard to the development of key industries to meet the defence requirements of the country. The rapidly deteriorating international situation, the sinister game of power politics that is being waged almost on the very borders of India and her strategic position in the East demand that India's defence should be efficiently organized on the most modern lines as speedily as possible. The Planning Advisory Board has remarked "that such development would *ipso facto* make the country better prepared for defence, and this may be regarded as a subsidiary objective of planning." The Economic Programme Committee appointed by the All-India Congress Committee has also examined the problems of planning in the context of a free India and has suggested the "creation of an economy which would meet fully the requirements of the country's internal and external security". The exclusion of defence considerations and of national self-sufficiency renders the objectives clause of the industrial policy incomplete. But it is to be hoped that when the details of the policy are worked out and the exigencies of the defence situation taken into consideration, the twin objectives of self-sufficiency and defence will be kept in view, for in the modern world all economic activities are regulated to serve national prosperity and national security.

### **The Issue of Nationalization**

From the point of view of ownership, operation and control Government have classified industries into five categories as shown in the following table.

The Government of India resolution on industrial policy, while setting at rest the controversy over State *versus* private enterprise for a period of ten years, has thus also demarcated the respective spheres of State and private enterprise in industry. Let us now examine the reasons advanced by Government for such a division. Government are of the opinion that any improvement in the economic conditions of the

## CLASSIFICATION OF INDUSTRIES

Exclusive monopoly of Central Government	Under the ownership of Central Prov., State Governments and public bodies (excluding existing undertakings)	Under private enterprise but subject to Central regulation and control	Under private enterprise, preferably under industrial co-operatives	Under free private enterprise
	Under free private enterprise			
<b>Manufacture of arms Coal, iron and steel, aircraft and ammunition, production and control of atomic energy, and ownership and management of railway transport</b>	Salt, automobiles and tractors, All prime movers, electric engineering, other heavy machinery, machine tools, heavy chemicals, fertilizers and pharmaceuticals and drugs, electro-chemical industries, non-ferrous metals, rubber manufactures, power and industrial alcohol, cotton and woollen textiles, cement, sugar, paper and newsprint, air and sea transport, minerals and industries related to defence	All cottage, small, All scale and rural and allied agricultural industries		

country postulates an increase in national wealth. Our efforts therefore must be primarily directed to a continuous increase in production by all possible means. Hence the accent is on expansion of production rather than on re-distribution of existing wealth. In order to maintain the current volume of production and to step it up further, Government are, however, reluctant to disturb the existing industrial structure of the country. Voicing Government's anxiety in this respect, the Prime Minister, Pandit Jawaharlal Nehru speaking on the policy resolution in the Dominion Parliament, stated, "One had to be very careful that in taking any step the existing structure was not injured very much. In the state of affairs in the world and in India today, any attempt to have a 'clean slate', i.e., a sweeping away of all that they had got, would certainly not bring progress nearer but rather delay it tremendously. The alternative to that 'clean slate' was to try to rub out here and there, to write on it gradually to replace the writing on the whole slate, not too slowly but nevertheless without a great measure of destruction in its trail."

Government's desire to maximize production is unexceptionable. But the plea that it can be achieved only by giving a new lease of life, if not a long rope, to private enterprise is hardly understandable. That the existing structure of industry has failed to provide a national minimum to all is proved beyond doubt by the very fact that Government have decided to enter the industrial field. The reasons for this failure are not far to seek. The very profit motive which is the *raison d'être* of the capitalist system prevents it from mobilizing the factors of production to their maximum capacity. Despite all the human ingenuity in devising methods for regulating labour-capital relations, as long as profits flow into the pockets of the owning and not the working class, so long is conflict inevitable. A productive system based on nineteenth century life and carried on into modern times is bound to create social anomalies and maladjustments. And we are constrained to remark that Government's industrial policy has failed to take due cognizance of this fact. Unless labour is assigned a new place—and its due place—in industry, production cannot be geared to the maximum. Government does

recognize industrial unrest to be a serious impediment in the way of expanding production but does not diagnose the evil in a scientific manner. Both for the ultimate objective of eliminating poverty and the immediate objective of maximizing production, it is urgent and necessary, as the *People's Age*, the official organ of the Communist Party of India, puts it in its issue of 18th April, 1948, "to remove private capitalists from strategic economic positions, to take steps to remove the profit motive from industry and to immediately nationalize all vital concerns as a pre-condition of planned economy in India." How far the existing industrial structure is capable of intensifying production may be gauged from the current cloth muddle. Even after five years' serious efforts made by Government in every possible direction the situation has only worsened. A Government of India *communique* dated 26th April, 1948, sums up the position thus : " When the decision for partial decontrol was taken, the textile industry gave the undertaking that it would assume the responsibility of fixing fair ex-mill prices and for arranging sale of cloth from the mills at these prices....(but) Government are constrained to observe that, with some honourable exceptions, neither the textile industry nor the trade has discharged its obligations to the public." How far the policy has enthused the industrialists to produce more is evident from Mr G. D. Birla's statement on the resolution in which he says, " It must, however, be realized by Government that the statement *per se* is not going to give the country any new production or enhanced prosperity." Comment is superfluous.

The second argument advanced by Government is that they have not at their disposal the necessary resources in personnel and administrative machinery to acquire and operate industries and they are therefore reluctant to nationalize industries immediately. We fail to understand, however, how men who become available for industry when it is run by private enterprise are not available when the State steps in. Pandit Nehru himself has refuted this argument against nationalization. Speaking in the Dominion Parliament on 18th February, 1948, on the nationalization of industries he said, " The question is often asked whether we have the personnel to nationalize industries. The question rather

surprises me because it is the same personnel who are utilized whether industry is nationalized or not. The personnel which operates private industry is not going to leave the country when industry is nationalized." Our own conviction is that State undertakings will attract personnel far more than private concerns for the former offer greater security of tenure, better terms of employment, better conditions of work and higher wages. Private enterprise may be able to offer exceptionally high remuneration to a few. But it can not ensure fair wages to the entire labour force. Moreover the State is undoubtedly in a better position to develop a national cadre of technicians and skilled labour.

The lack of necessary resources is another reason adduced by Government for leaving a very large sector of industry in the hands of private enterprise. This argument seems to be based on an erroneous assumption. As Government have only limited resources and their hands are already full with the several big projects under way, they would not like to fritter away their limited resources on acquiring relatively less important industries. The fact that Government resources are limited makes it all the more imperative that they should execute their big projects economically and speedily. This can be done only when all the key and basic industries are run by Government. Cement, iron and steel, coal, transport and basic minerals and chemicals are all essential for massive construction projects. The nationalization of these industries will make basic construction materials available cheaply and speedily and at the same time bring sufficient wherewithal to set up new industries in a planned economy. Pandit Nehru himself admits that the State is confronted with serious social problems. "It has to solve them or cease to be a social State. It has to face these problems and if it has to do this it must have the necessary wherewithal. The trend of events inevitably is to make the State more and more the organizer of constructive activity, of industry, etc. and not the private capitalist or any other person." The State must therefore recognize the inevitability of this tendency and undertake the responsibility of organizing constructive activity and also find the ways and means of financing it. Otherwise it leads to a vicious circle—the State cannot

acquire industries because it has not enough financial resources : its finances cannot expand because the profits of industry are devoured by the owning class. The financial 'bottleneck' can be broken only by the State getting hold of the sources of profit, *i.e.*, industry. Taxation may be indicated as another source of finance. But it is a well-known fact that in a capitalist system there is a limit to which industry can be burdened with taxes without curtailing the volume of production. Beyond this limit, *i.e.*, when the *entrepreneur's* profit ratio is hit, industry can be taxed only at the cost of the annual national income, for in a capitalist order, after a certain stage curbing of profits means curtailing production and has thus a regressive effect. Thus taxation as a source of revenue has its own limitation. It is not without significance that industrialists have already started a campaign for the reduction of taxes. The Committee of the Indian Chamber of Commerce, Calcutta, in its resolution on the industrial policy has demanded that "the present taxation structure should be radically revised so that people can save and invest in industry. The present rates of taxation retard saving and penalise investment." In order to meet its growing financial requirements a social State must acquire new and larger sources of revenue, *e.g.*, industry. The Bombay Planners may be quoted in this connexion. "The estimates of capital expenditure contained in the memorandum are of such colossal dimensions that the whole scheme may appear impracticable to people whose minds are still dominated by orthodox financial concepts. The answer is that money or finance is not the master of a country's economy but its servant and instrument. The real capital of a country consists of its resources in materials and man-power and money is merely a means of mobilizing these resources and canalising them into specific forms of activity." (*The Bombay Plan, Part I*, page 5.)

Pandit Nehru in the course of his speech on the resolution on industrial policy has advanced an entirely novel argument against immediate nationalization. "The technique of production and the methods of production are changing. But, nevertheless, they (the Socialists and Communists) base their programme more or less on a static world and not a

continually changing world with new methods of production and new techniques. They do not think so much in terms of the vast changes of production methods that may come about which will render the present industrial apparatus obsolete. They think in terms of acquiring this or that, spending vast sums of money, acquiring things which are 90 per cent obsolete today. In fact, from the point of view of technological advance it may well be a complete waste of money to acquire this obsolete machinery and factories and other things." This argument is a plea for a dynamic technology and for a postponement of nationalization of industry till tomorrow's advance in technology. Need we point out that technology is never a static process and that the new methods for which we are asked to wait may very well become old after another decade? Industrialization does not wait for advances in technical inventions and research; rather the latter follow in the wake of the former. We must also at the same time remember that these obsolete concerns form our entire industrial structure. Even in their obsolescent condition they are earning crores of rupees annually. To talk of keeping pace with technological advancement in the face of scarcity and lack of even obsolete capital equipment is only crying for the moon! Products of some of these like jute, mica and tea are important items of our export trade and earn precious foreign exchange. Their nationalization will augment the revenue of the State and provide the finances for laying the foundations of our planned economy. Even from the point of view of technological progress, it is evident that private enterprise cannot keep pace with improvements for its dominant motive is profit and not technical progress. The investing class can neither afford to invest nor would it be willing to invest in technical improvements and replacements which do not bring immediate returns. Technological innovations require a huge capital outlay and a vast pool of technical knowledge which Government alone can command. In this connexion we have only to consider how much our industry is dependent on scientific and industrial research. And whatever research institutions we have today are Government sponsored and financed from the public treasury.

### Labour-Capital Relations

We have examined above the pros and cons of the policy of complete and immediate nationalization of industries and noticed that Government have not adopted it in its entirety. They have, however, made an attempt to reconcile the conflicting claims of labour and capital about the profits of industry. The need and importance of ensuring the fullest co-operation between labour and management and maintaining stable and friendly relations between them have been fully recognized by Government. They have endorsed the resolution on industrial truce passed by the Industries' Conference held in December, 1947. The resolution states that the system of remuneration to capital as well as to labour must be so devised that while in the interests of the consumers and the primary producers excessive profits should be prevented by suitable methods of taxation and otherwise, both will share the product of their common effort after making due provision for payment of wages to labour, a fair return on the capital employed in the industry and reasonable reserves for the maintenance and expansion of the undertaking. They have accepted the principle that labour's share of profits should be normally on a sliding scale varying with output. In addition to the over-all regulation of industry by the State, Government propose to establish machinery at the Centre as well as in the provinces for advising on fair wages, fair remuneration for capital and conditions of labour. Government have also promised to associate labour in all matters concerning industrial production.

The principles enunciated by Government in their statement on industrial relations are, no doubt, unimpeachable and deserve to be applied forthwith. But the crux of the matter is the administration's ability to implement them with energy and dispatch. We are constrained to observe that not much has been achieved in the sphere of labour-capital relations except that Government have succeeded in reducing the number of strikes in the country which at one time were threatening to assume menacing proportions. This industrial truce, however, has been imposed from above through legislation and is not the outcome of mutual agreement between labour and capital. Capital still enjoys

the same privileges as before and labour's lot has not undergone any substantial improvement. The industrialist has been assured of the maintenance of the *status quo*, which definitely works to the advantage of the owning class. The prophetic warning given by the labour representative Shri Khandubhai Desai in the course of the debate in the Dominion Parliament has come out true. He had said, "The policy if properly translated into action and given effect to would be beneficial to the country as a whole. But Government must guard themselves against the manœuvres of the capitalist class who would move heaven and earth to see that the policy was not implemented. The quantum of labour's enthusiasm and support to the policy would be proportional to the steps which the State would take in effective furtherance of the policy." Unfortunately, Government's efforts to implement their policy have not been a conspicuous success and they have failed to inspire much enthusiasm among the workers. It is no wonder that in the circumstances the industrial truce has been violated by both the parties in several provinces. The consequences are only too evident. Production in almost all the industries has suffered a setback as shown by the following figures quoted from *Commerce* (7th August, 1948, page 280).

#### INDUSTRIAL PRODUCTION IN INDIA

	1945-46	1946-47	Percent- age fall
Cotton piecegoods (million yds.)	4,651	3,863	17
Cotton Yarn (million lbs.)	548	470	14
Paper (cwts., '000)	..	1,681	1,244
Sugar (cwts., '000)	..	10,230	8,666
Matches (million gross)	..	2,021	1,239
Cement (tons, '000)	..	2,146	2,016
Pig iron (tons, '000)	..	1,422	1,365
Steel ingots (tons, '000)	..	1,299	1,199
Finished steel (tons, '000)	..	1,338	1,160
Coal (tons, '000)	..	26,543	26,218

Average fall—16 per cent

The curve of declining production is still going downwards and if the situation deteriorates further the country

may be confronted with an unprecedented economic crisis leading to catastrophe.

### Cottage Industries

For the first time in the economic history of the country cottage industries have been assigned a definite place in the industrial policy of the Government. It is recognized that cottage and small-scale industries have a very important role in the national economy. Besides offering scope for individual, village and co-operative enterprise, they are particularly suited for the more efficient utilization of local resources, both material and human, and for the achievement of local self-sufficiency in respect of certain types of essential consumer goods like food, cloth and agricultural implements. For the proper development of these industries provision must be made for the supply of raw materials, cheap power, technical advice, organized marketing of produce, and, where necessary, safeguards against intensive competition by large-scale manufacture. But most of these factors fall in the provincial sphere and therefore the Central Government cannot take any direct initiative in the matter. However, the Union Government have promised to investigate how far and in what manner these industries can be co-ordinated and integrated with large-scale industries.

The statement on the resolution on industrial policy says that the present international situation is likely to lessen to a marked degree our chances of getting capital goods for developing indigenous large-scale industry and that the leeway must be made up by having recourse to small-scale industrial co-operatives throughout the country. Thus Government's decision to encourage cottage industries appears to be prompted more by expediency or the exigencies of the situation than by ideological considerations. The statement makes no reference to the peculiar economic situation in India with its abundance of man-power and its chronic under-employment or unemployment. Nor does it discuss the competence of cottage industries to bring about an increase in the *per capita* income of the rural population and the consequent rise in the standard of living of the masses. It also more or less entirely overlooks the capacity of cottage

industries to solve the problem of distribution at the production end and thus prevent the concentration of wealth in the hands of the few. The fact that the Indian National Congress is wedded to a particular school of economic philosophy evolved by Gandhiji has apparently never influenced the framers of the policy. The ideology of decentralization and village self-sufficiency is based upon the principle of 'full employment' in the rural economy. That there can be no other effective alternative for India was repeated by Gandhiji, time without number, in his speeches and writings. This same fact has been proved to the hilt by the author of the 'Gandhian Plan', Acharya S. N. Agarwal, in his recent book *Gandhian Plan Reaffirmed*. Taking 60 millions as the ideal number of persons to be engaged in industry, Acharya Agarwal calculates that at the most 10 million workers can be absorbed in large-scale industries within the next ten or fifteen years. The remaining 50 million out of 60 million allotted to industries will, therefore, have to be engaged in small-scale and cottage industries throughout the country-side. The Economic Programme Committee appointed by the All-India Congress Committee has summed up the ideology behind its recommendations as follows: "Widest possible diffusion of opportunities for occupation through an economy based on decentralization and compatible with the requirements of an adequate standard of living and the country's internal and external security, national and regional self-sufficiency and a proper balance between rural and urban economy.... Industries producing articles of food and clothing and other essential consumer goods should constitute the decentralized sector of Indian economy and should, as far as possible be developed and run on a co-operative basis. Such industries should for the most part be run on cottage or small-scale basis.... In the conditions prevalent in our country, emphasis will be on providing opportunities for the employment of our unutilized or partially utilized man-power and minimizing the use of costly capital goods. Large-scale industries should be utilized to improve the economic basis and the operative efficiency of small-scale and cottage industries." This fundamental truth about the economic future of India has not received as much attention as it should have

at the hands of the Congress-led Government at the Centre.

We admit that the factors which govern the expansion of cottage industries fall in the provincial sphere and under the present constitution the Union Government can absolve themselves from any direct responsibility. But the industrial policy is to remain in force for the next ten years and will be executed under the new constitutional set-up. In the Draft Constitution of India 'Economic and Social Planning' appear in the concurrent list. (*The Draft Constitution of India*, page 201). The initiative and actual execution will no doubt lie with the provincial Governments and the States, but co-ordination and control on an all-India basis can only be exercised by the Union Government. Cottage industries are bound to occupy a prominent place in the all-India picture of industrial planning. The task of co-ordinating and integrating cottage industries with large-scale industries cannot be undertaken on the provincial level. Similarly, provision of cheap power, safeguards against intensive competition by large-scale manufacture, organized marketing of the products of small-scale industries and decentralization of concentrated industries can only be tackled on a national basis.

A critical examination of the important aspects of the industrial policy inevitably leads us to the following conclusions :

- (a) Government's attitude towards the nationalization of large-scale industries is half-hearted, halting and static. The demarcation of spheres for the operation of private enterprise and State enterprise leaves the former almost intact for at least ten years.
- (b) The principles of labour-capital relationship and the machinery recommended for its regulation are no doubt unexceptionable in theory. But their success in practice pre-supposes the existence of an organized trade union movement on the one hand and an enlightened employer class on the other. But in our country both are unfortunately absent, partially if not wholly. The course of events since the announcement

of the policy has shown that conditions favourable for such collaboration between employer and employee do not at present exist in the country.

(c) With regard to the place assigned to cottage industries, the industrial policy is disappointing. It has almost passed over the economic ideology of the Congress so carefully evolved and nurtured by Gandhiji. The policy, if implemented in full, will not only throw India open to the extreme type of Western industrialization but also strike at the very roots of autonomous self-sufficient village republics—the cherished dream of the Father of the Nation.

There can be no more appropriate concluding remarks about the industrial policy of Government than those uttered by that eminent authority on economic planning, Prof. K. T. Shah, during the debate on the subject in the Dominion Parliament: "This was not a policy that a State desiring to be progressive, desiring to advance the well-being of the country to the utmost possible degree, should adopt. I am disappointed with the resolution not only because of its sins of commission, but also because of its sins of omission. The worst possible examples were left to the State and the best possible examples were left to the capitalist seeking profit and only profit. What was the use of saying that for ten years the capitalist would be given 'a charter of exploitation' under which he could take out all the kernel and leave the husk to posterity?"

## CHAPTER X

### PLANNING IN FREE INDIA

If freedom in its negative aspect implies the absence of foreign political domination, in its positive phase it connotes the power of national self-determination. A free nation can shape its destiny according to the sovereign will of its people. Freedom is therefore a means to an end, which is the all-round material and moral advancement of the community, and unless we use our freedom for achieving our objective our entire freedom movement will have been in vain. And it is almost a truism to say that we cannot attain our goal without a plan. Planning is the order of the day, and the slogan 'Plan or Perish' was never more applicable than to India today. Free India must therefore be followed by a Planned India, for without the latter the former can never survive. It may sound paradoxical to those who consider national planning as the antithesis of personal liberty but today it is almost platitudinous to say that a nation's freedom can only be preserved by a planned economy. Politics cannot be dissociated from economics, for each acts and reacts on the other.

It follows, therefore, that nothing less than the maintenance and enlargement of our national liberty should be the aim of planning in India. Our economic system hitherto was that of a colonial dependency and served the ends of British Imperialism. Today we have to liquidate not an alien political domination but an indigenous economic exploitation. We must make of democracy a dynamic social process ; for it is a way of life as well as a system of government. In other words, we should establish economic as well as political democracy, in which every citizen may participate on equal terms. In the new draft Constitution we have affirmed our solemn resolve to constitute India into a Sovereign Democratic Republic and to secure to all its citizens justice—social, economic and political—and equality of status and opportunity. It should be our first concern to apply this solemn resolve in the economic sphere. The objectives of social and economic justice and equality of status and

opportunity can be achieved only when there is a democratic approach to the solution of economic problems, which inevitably implies planning 'of the people, by the people and for the people'. Our objective should be to secure freedom from want for the entire community and not only for a class or a section. In other words, our goal should be authentic all-round 'National Planning' and not mere economic development or industrial expansion or post-war reconstruction or 'grow more food' or decentralization or rural regeneration.

Most of the economic plans and planners are practically agreed on the objectives of planning. There may be a difference of emphasis on specific items or priorities or targets to be achieved within a given period. But on a National Minimum consisting of adequate food, shelter, clothing, medical aid and education there is almost absolute unanimity. A corollary to the National Minimum is that every citizen should be secured against unemployment, ill health and old age. This National Minimum and economic and social security should be guaranteed as of right and not out of charity. The minimum would, no doubt, be irreducible but it should never be considered in static terms. Successive plans must provide for a progressively rising scale of amenities and comforts. Our efforts to secure a National Minimum for all must lead to national self-sufficiency. But national self-sufficiency should not be confused with economic nationalism or autarchy or economic imperialism. National requirements will be the first charge on the country's production and the surplus would enter the international market to meet the obligations of reciprocal trade with foreign countries. Planning should also make the country better prepared for defence. In the perilous international situation obtaining today an infant republic like India cannot for a moment relax her efforts at organizing her defence, for ultimately economic planning itself largely depends on peace and security within and without the country. To sum up, the objectives of planning should be :

- (a) An irreducible National Minimum with a progressively rising scale of amenities and comforts.
- (b) National self-sufficiency, and
- (c) Organized defence.

The crux of planning lies not in formulating the

objectives but in devising ways and means to achieve them ; 'how' to achieve is as important as 'what' to achieve. Consistency between ends and means is nowhere so imperative as in planning. Economic justice for the common man cannot be achieved by undemocratic or authoritarian methods. No plan can succeed without the intelligent and enthusiastic co-operation of those for whom it is meant ; and no co-operation would be forthcoming from the general public unless it is assured of the benefits of such planning. Therefore, in order to achieve fulfilment in planning it is essential to adopt only those ways and methods which would ensure the benefits of planning to the common man. It is not a mere matter of choosing this or that 'ism'— of a particular social pattern or economic order. Our primary concern should be to see that every citizen of the free Indian Republic gets his due share of the national wealth. Such an assurance would be the most effective means of stimulating maximum production. All other factors like technical efficiency, co-ordination and organization, etc. are decidedly less important than mobilizing the human factor. Apart from fundamental psychological considerations, efficient and contented manpower is the first desideratum in planning and cannot be mobilized except by democratizing the economic system.

A sharp controversy is raging today on this very issue, and in the heat of battle and din of discussion it is becoming increasingly difficult for partisans to preserve a proper sense of perspective. One section advocates private enterprise and the maintenance of the *status quo*, while the other stands for socialism and nationalization of the means of production. The standpoint of the former may be summed up as follows :

- (a) There is always an element of considerable risk in every industry. It is neither proper nor desirable that the State should undertake such risk.
- (b) Under bureaucratic control and management the standard of efficiency is apt to deteriorate and consequently the volume of production is likely to be affected adversely.
- (c) Individual initiative and personal interest so

essential for conducting industry are incompatible with bureaucratic management of industry.

- (d) The State may experience difficulty in getting a sufficient number of technical personnel.
- (e) The difficulty of finding the finance for paying compensation to the owners of the means of production.

The arguments stated above raise certain fundamental objections against the nationalization of the means of production. Let us therefore examine them before considering the other side of the picture. Taking first the question of the risk involved in any new industrial enterprise and the inadvisability of the State shouldering it, we are of the opinion that this argument is based on an outmoded conception of the State. The State is not intrinsically separate from the community. Risks that affect the community must also directly or indirectly affect the State. To isolate the State from any sector of the nation's economic activity is not only undemocratic but harmful to the interests of the community at large. Moreover, there are industries which private enterprise may not be willing to operate or in which it may not be desirable. In such cases the nation might gain if the responsibility for them is shouldered by the entire community and not by any particular section. It must also be borne in mind that under a planned economy in a socialistic system, the element of risk or loss, where not entirely eliminated, would be minimized and spread all over the community. And in any case, it would not be a greater burden on the public exchequer than the combined subsidies and bounties which the State is doling out to industry today as a measure of protection.

The second argument against socialization is that under bureaucratic control and management the standard of efficiency in industry would go down and production suffer. This argument ignores the organizational structure of modern industry. It presumes that in modern private industrial enterprises there is more of personal supervision and management than in corresponding public enterprises. A first-hand knowledge of the working of any large-scale industry would convince one that its management is as impersonal as that of any Government Department. To what extent and in what

manner the worker in a modern factory is in personal contact and under the supervision of its owner is well known to us. Private enterprise is thus as much exposed to inefficiency and mismanagement as any public enterprise.

It must also be understood that bureaucratic methods and practices which have become a byword for red-tapism, dilatoriness, retreat from responsibility, etc., do not owe their origin precisely to the public character of any enterprise. The scale of operations, number of workers employed, enforcement of a certain standard of rules and the nature of organization are responsible for rendering industrial management equally impersonal and bureaucratic in its working. The unwieldy character of the organization of modern industry is at the root of the evil. In a public enterprise it may mean red-tape *paperasserie* and delay. But in a private enterprise it may often develop into anti-social practices like favouritism, nepotism, victimization, etc. The control and management of public enterprise is necessarily subject to the control of the legislature. Therefore the evils of impersonal management can be exposed and eliminated as far as possible. But in the case of private enterprise everything depends on the vagaries of an individual.

Difficulty in diverting available technical personnel from private to public enterprise is largely imaginary. State enterprise would attract skilled as well as unskilled workers more than private enterprise for the terms and conditions of work, enforcement of labour legislation, provision of amenities and the association of labour in the management of industry will decidedly be more favourable in the case of State concerns. Moreover, Government when embarking on fresh industrial enterprises would also provide for educational and technological institutions for the training of technicians. The industries themselves would become centres of technical training turning out annually vast numbers of trained personnel. Pandit Nehru, speaking on the nationalization of industries in the Dominion Parliament on 17th February, 1948, has thus answered this objection : "The question is often asked whether we have the personnel to nationalize industries. This question rather surprises me because it is the same personnel who must be used whether

the industry is nationalized or not. The personnel functioning in private industry are not going to leave the country when it is nationalized. It is the same personnel that will be utilized including the captains of industry, because of the special abilities, managerial, executive, etc."

The problem of finding the finance for paying compensation to the owning classes is no doubt a tough one. But our capacity and competence for large-scale planning must also enable us to surmount such difficulties. To quote the Bombay Planners, "Money or finance is not the master of the country's economy but its servant and instrument. But in order to make finance an instrument of economic and social progress it is necessary to jettison the orthodox financial concepts which still dominate our thinking. If money can pour in an unlimited quantity for purposes of war, there is no reason why it should not be available on a similar scale to fight the battles of peace against poverty, illiteracy, unemployment, ill health, etc. Once we proclaim our decision to liquidate all those factors which obstruct the free flow of capital into nation-building activities, all arguments of scarcity of capital will resolve themselves. Planning implies not only the wise husbanding of the wealth to be produced but also diverting the existing wealth of the country into productive channels according to a well-articulated plan. The People's Plan makes the following suggestions for the payment of compensation. Compensation to be paid to the rent receivers as well as to the creditors, which will amount to Rs. 1,985 crores, should be in the form of forty-year 3% non-transferable self-liquidating bonds issued by the State. Sir Manilal B. Nanavati has suggested in the *Artha Sandesh* Wardha, of February, 1948, that a more practical method of compensation would be to make payment by annuities out of the revenues which would accrue to Government after the abolition of zamindari, and if these have to be capitalized and paid off, it should be done from the accumulated surpluses arising out of the zamindaris. Methods of compensation therefore are a matter of detail. Mr Charan Singh in his *Abolition of Zamindari*, says (on page 171), "Given the will a number of ways can be devised whereby proprietary rights can be transferred to the actual tillers of the soil and the

tenants raised to their rightful position from serfdom to mastery without any violent destruction of those who have held them in subjection for so long." What is true in the case of land is also true in the case of industry and large-scale business, with the necessary modifications.

The case for socialism in the present context of the country has been ably expounded by Prof. K. T. Shah in his Minute of Dissent to the Report of the Planning Advisory Board, 1946. His arguments, briefly put, are :

- (a) Under nationalized ownership and management there would be better co-ordination and greater economy in working industries.
- (b) The distribution or diffusion of all industries throughout the country so as to facilitate the fullest employment of local labour and utilization of local material resources of every region will be very much easier and more real.
- (c) The surplus or profit from such nationalized enterprise will be available for the use of the public treasury and so provide ever-expanding financial resources which tax resources by themselves cannot provide.
- (d) The operation of the nationalized industries, services or utilities will be primarily to render service or assistance to the national economy as a whole, not for making profits for the owner as would inevitably be the case under private enterprise.
- (e) Only under socialized production will fullest possible employment to all adult workers in accordance with the aptitude and training of each be secured.

The plea for nationalization, however powerful and convincing, should not be construed as a cry for hasty and ill-planned change of ownership involving serious dislocation of production and economic convulsions. It calls for formulating a programme of nationalization, fixing up a time-table and priorities, drawing up schemes of acquiring industries, deciding methods of compensation and making arrangements for operating the acquired industries. But the dictum of

'hastening slowly' or the 'inevitability of gradualness' should not lead us to a policy of 'do nothing' or 'too little and too late'. The period of five years fixed by the Economic Programme Committee of the All-India Congress Committee must be considered eminently reasonable. During these five years all preliminary spade-work with regard to finance, organization and technical personnel should be complete and the State should be ready by that time to proceed with nationalization according to the plan. Which sector should be acquired first, at what speed and in what manner are matters of detail to be decided and regulated by the Planning Commission.

The controversy over large-scale *versus* small-scale industries is of little practical value when we come to actual planning. The advocates of large-scale industries do not contend that each and every industry can be immediately organized on a large scale nor do the protagonists of small-scale industries believe that all industries can be run on a cottage or rural basis. It is evident from the Bombay Plan itself that there can be no such thing as a hundred per cent large-scale economy, for the Plan regards small-scale and cottage industries as one of its essential parts and assigns them an important and useful place in the consumer goods industries. (*The Bombay Plan*, Part I, pages 27-28.) Similarly the Gandhian Plan does not rule out large-scale industries altogether. The author of the Gandhian Plan writes that in a free India, the development of basic or key industries should not be neglected. The basic industries would help and not hinder the growth and evolution of cottage industries. (*The Gandhian Plan*, page 79.) Both the plans though based on two extreme views have something in common. There is a place for cottage industries alongside of large-scale industries and, conversely, there is a place for large-scale industries in the decentralized economy based on small-scale production. We are convinced that once we make up our minds about the ownership of large-scale industries, the existing ideological conflict between large-scale industrialization and decentralized small-scale production would disappear. After all, our aim is to ensure fullest employment of man-power and material resources and not mere insistence on the scale of production.

In the midst of abundant man-power and scarcity of capital equipment, it is fantastic to think exclusively in terms of large-scale industries. It is no less utopian to rely wholly on small-scale industries for all the complex and manifold requirements of modern civilized life. Our task is to evolve a system under which both types of production can beneficially supplement each other. Matters of detail can be left to be worked out by the Planning Commission.

## APPENDIX I

### RESOLUTIONS OF THE INDUSTRIES CONFERENCE, DECEMBER 1947

At the Industries Conference held from the 15th to 18th December, 1947, several resolutions were passed to increase production in the country, and bring about a three years' Truce in industrial relations.

The resolution on industrial production passed unanimously says :—

1. This conference views with great concern the continued decline in industrial production which had occurred during the last two years.

2. This conference is of the view that the present inability of industry to produce its installed capacity and to expand as planned is mainly due to

- (a) inadequacy of transport to meet present needs;
- (b) unsatisfactory relations between management and labour;
- (c) shortage of raw materials and defects in their procurement and distribution;
- (d) difficulty in obtaining capital goods and constructional materials to install them;
- (e) supply and exchange limitations on the import of the full requirements of industry; and
- (f) paucity of technical personnel.

This conference recommends the following immediate measures :—

#### 1. Transport

(a) The increase in the movement of coal by 4 million tons per annum over the existing level of 25 to 26 million tons per annum to enable existing requirements to be met. For this purpose the fullest use should be made of the present wagon availability, and every effort should be made to increase wagon availability and other railway facilities.

(b) The assessment of the transport required for the movement of finished goods and raw materials necessary for full production and arrangements to secure such

transport through a reduction of less essential movements, whether of goods or passengers.

(c) An examination of all possibilities of increasing total goods traffic such as rationalisation of line, power and wagon capacity and the fullest use of present resources.

(d) The fullest utilisation of road, river, sea and air transport.

## 2. Raw Materials

(a) Special assistance for increased production in India of industrial raw materials like steel, cement, caustic soda and other chemicals, light metals, etc.

(b) The increase of imports of essential raw materials in short supply like steel, non-ferrous metals, caustic soda and other chemicals, etc. Foreign exchange difficulties should be overcome to the extent possible increasing exports including export and loans in cash or commodities on lines approved by Government.

(c) The planned utilisation of industrial raw materials in short supply with a view to secure increased production. To the extent possible, such distribution of raw materials should be effected in consultation with representative associations of industry in the case of organised industries and with Provincial and States' Governments in other cases.

Provinces and States should be invited to consider in consultation with industries in their areas, the possibilities of rationalising the use of raw materials in short supply so as to secure maximum production. Standards of classification of units in an industry according to efficiency in production, so that all-India standards may be laid down.

## 3. Technical Man-Power

(a) The establishment of Scientific and Technical liaison offices abroad for the recruitment of technical personnel and the placing of advanced Indian students and technicians in foreign universities. Technical Institutions and the acquisition of technical information.

(b) The increase of facilities in India for the training of scientific and technical personnel and the training of labour to increase its efficiency and skill.

(c) The maintenance of a register of scientific and technical personnel.

3. This conference recommends that during the next three to five years the increase of capacity and production in certain industries for which plans have been approved and are under execution should be pressed forward with vigour. The essential prerequisite for such expansion is the increase of production of commodities and provision of services in the basic industries without which any expansion would be impossible.

The following measures are, therefore, recommended:

(a) *Railways* : The capacity of rail transport should be increased to meet prospective demands of movement of constructional materials, fuel, raw materials and finished products. The import of locomotives and wagons should be given high priority and existing capacity for manufacture should be developed so as to secure self-sufficiency at the end of this period.

(b) *Steel* : New steel plants should be erected and brought into production and in the mean time every effort should be made to import the country's essential requirements in iron and steel.

(c) *Cement* : The approved plan for cement production should be hastened to an early completion so that this important constructional material becomes available for the installation of new industrial plants.

(d) *Electric Power* : Simultaneously with the preparation and execution of hydro-electric projects like the Damodar Valley Scheme, which take time, existing plans for the installation of ancillary Thermal Power Stations should be speedily implemented.

(e) *Coal* : The recommendations of the Indian Coal-fields Committee regarding the acquisition of mineral rights, planned and co-ordinated development of production in new areas, regulation of use and distribution and creation of suitable executive machinery, amongst other things, must be implemented early, so that the growth of the coal industry on rational lines can be facilitated.

(f) *Oil* : In order to reduce dependence on foreign sources prospecting for oil should receive increased attention and the possibility of producing substitutes from coal should be investigated.

In addition legislation to secure the fullest utilisation of power alcohol produced in the country should be enacted.

(g) In the light of the development anticipated under (a) to (f) above, the target for the next five years should be fixed in a realistic manner for other important industries like Cotton Textiles, Paper and Newsprint, Chemicals, Penicillin, Sulpha drugs and Anti-Malaria, Heavy and Light Engineering, Electric and other machinery and Machine Tools; and suitable machinery created for watching and ensuring progress towards the targets.

(h) Machinery for watching and ensuring the execution of immediate and short-term plans. The need for close consultation between the various ministries concerned with industrial development needs no emphasis.

It is also necessary to associate representatives of Provincial and States' Governments, Industry and Labour in a periodical review of progress and the measures necessary to stimulate it.

(i) A central Industrial Advisory Council should be set up with appropriate sub-committees for important reviewing and advising on problems of transport in relation to industry. Similar Industrial Advisory Committees in the Provinces should also be constituted.

(j) To assist Government on the proper utilisation of scarce raw materials, capital goods, foreign exchange and other resources, a Priorities Board should immediately be set up.

The resolution on national policy was also passed recommending to Government that while enunciating their national policy of Industrial Development, the following aspects, among others, should be kept in view:—

(1) The need for an equitable distribution of the country's wealth and production leading to rapid improvement of the standard of living and comfort of the masses of the Indian people, based on social justice.

(2) The need for the fullest utilisation of the country's resources without allowing wealth to accumulate in the hands of a section of the people.

(3) The need for Central planning, co-ordination and direction so as to obtain maximum efficiency and output,

a fair and reasonable distribution of the industries throughout the country in relation to the potentialities of each area, and also to determine a fair basis of wages and profit.

(4) The division of industries into three broad categories:

- (a) Industries which should be under State ownership and management.
- (b) Industries which may be jointly owned and managed by the State, and
- (c) Industries under private enterprise.

In selecting the industries as aforesaid, which will be reviewed from time to time, the paramount considerations will be the country's basic Economic and Defence requirements on the one hand, and the possibility of quick and efficient production on the other.

### Labour's Role in Present Crisis

This conference considers that the increase in industrial production, which is so vital to the economy of the country, cannot be achieved without the fullest co-operation between labour and capital and stable and friendly relations between them. The employer must recognise the proper role of labour in industry and the need to secure for labour fair wages and working conditions. Labour for its part must give equal recognition to its duty in contributing to the increase of the national income, without which a permanent rise in the general standard of living cannot be achieved.

Mutual discussion of all problems common to both, and a determination to settle all disputes without recourse to interruption in or slowing down of production, should be the common aim of employers and labour.

The system of remuneration to capital as well as labour, must be so designed that while in the interests of the consumers and the primary producers, excessive profits should be prevented by suitable measures of taxation and otherwise, both will share the product of their common effort after making provision for payment of fair wages to labour, a fair return on capital employed in the industry, and reasonable reserves for the maintenance and

expansion of the undertaking.

For attaining these objectives, this conference recommends :—

(a) That the fullest use should be made of statutory and other machinery for the resolution of industrial disputes in a just and peaceful manner; where it does not exist, it should be created without delay. Such machinery should as far as possible be uniform throughout India.

(b) The establishment of machinery—central, regional and functional—for the study and determination of fair wages and conditions of labour, and fair remuneration for capital, and methods for the association of labour in all matters concerning industrial production, such as the formation of central, regional and unit production committees.

(c) The constitution in each industrial undertaking of works committees, representing management and duly elected representatives of labour, for the settlement of any dispute which may arise from day to day.

(d) That, as a first step towards improving the standard of living of workers, immediate attention should be devoted to the problem of housing of industrial labour; the cost of such housing should be shared in suitable proportions between the Government, employers and labour, the share of labour being given in the shape of a reasonable rent.

This conference invites labour and management to assist Government to arrive at such agreements between the parties as will usher in a period of contented and orderly advancement towards a co-operative commonwealth.

## APPENDIX II

### THE CONGRESS ECONOMIC PROGRAMME COMMITTEE REPORT (25th January, 1948)

The report is not a blue-print but an outline programme, the details of which are to be filled in by the Permanent Planning Commission which has been recommended.

The aims and objects of the programme are : A quick and progressive rise in the standard of living of the people by expanding the volume of production and full employment of man-power and material resources ; the achievement of a minimum national income variable according to the cost of living and productive efficiency; the fixing of a ceiling for incomes which should bear a reasonable proportion to the national minimum; equitable distribution of the existing income and wealth and prevention of the growth of disparities in this respect with the progress of industrialisation; the widest diffusion of opportunities for occupations through an economy based on decentralisation and compatible with the requirements of an adequate standard of living and the country's internal and external security, national and regional self-sufficiency and a proper balance between rural and urban economy.

The main recommendations relating to agriculture are : Minimum levels of assured production of food, cotton and building materials in every province and every prescribed area on the basis of a scheme of balanced cultivation, removal of all intermediaries between the tiller and the State and replacement of all middlemen by non-profit-making agencies such as co-operatives; remunerative prices for basic agricultural products and living wage levels and relief of indebtedness for agricultural workers; non-recurring permanent land improvement, like anti-erosion, etc., through direct investment by the State; farms to demonstrate efficient and modern methods of agriculture and pilot schemes for experimenting with co-operative farming under state auspices; organisation of co-operative colonies on Government

unoccupied but cultivable lands; organisation of co-operative multi-purpose enterprisos and unions for credit, processing and marketing and supply of manufactured goods from towns to villages; land generally to be owned by *bona fide* cultivators; fixing the maximum size of holdings and placing the surplus above the maximum at the disposal of the village co-operatives; consolidation of small holdings and prevention of further fragmentation; substitution of the land revenue system by progressive taxation of agricultural incomes; organisation of agricultural finance corporations operating through co-operative societies and statutory village panchayats with well-defined powers and adequate financial resources; and machinery of conciliation between landless and landholding peasants.

The main recommendations regarding industry (village, small-scale and heavy categories) and spheres of industries are that industries producing articles of food and clothing and other consumer goods should constitute the decentralised sector of Indian economy and should, as far as possible, be developed and run on a co-operative basis. Such industries should for the most part be run on cottage or small-scale basis. Larger units are inevitable in the case of heavy industries, e.g., manufacture of machinery and other producer goods. The choice of size will be determined by the net balance of economic and social advantage, preference being for smaller as against larger units.

To avoid economic insecurity and destructive competition, the respective spheres of large-scale, small-scale and cottage industries should be demarcated. In the conditions prevalent in our country, emphasis will be on providing opportunities for the employment of our unutilised or partially-utilised man-power and minimising the use of costly capital goods. Large-scale industry should be utilised to improve the economic basis and the operative efficiency of small-scale and cottage industries. Certain lines of manufacture should be reserved for cottage industries. Cottage industries may be protected from the competition of large-scale industries through state control of competing large-scale industries, grant of subsidies or some method of price equalisation, control of investment and licensing of

new undertakings.

Regional self-sufficiency should be the aim with regard to all types of industries. The location of industry should be so planned as to make a district of average size, having roughly a population of ten lakhs, as nearly self-sufficient as possible in respect of consumer goods supplying the daily needs of the people. Fiscal and other measures may be adopted to foster suitable industries in different regions, especially in depressed areas.

The small-scale and cottage industries should be promoted on non-profit lines through industrial co-operatives under state auspices through non-official promotional bodies, Government being represented in them but not controlling them. The structure that is built up should be a strong federal structure, consisting of primary societies, their regional unions and the apex federation. The industrial co-operatives should do the purchases, sales, arrangement of tools, workshops, guidance and supervision. The major portion of the produce of these industries should be sold through consumers' and multi-purpose agriculturists' societies. To create the right type of leadership in the development of these industries a cadre of organisers, technicians and secretaries, etc., with pay and conditions of service similar to that in public bodies, should be trained.

Government should encourage the development of cottage industries by grant of direct loans and subsidies through co-operative societies in the initial stages, specially in the case of losing industries and new industries, by using their products in their Departments, organising propaganda and advertisement and arranging the demonstration of and training in the application of better tools and processes and undertaking and encouraging research for the purpose of developing these industries efficiently and for the better utilisation of the available natural resources through a permanent Board of Research.

New undertakings in defence, key and public utility industries should be started under public ownership. New undertakings which are in the nature of monopolies or which in view of their scale of operation serve the country as a whole or cover more than one province, should be run on

the basis of public ownership. This is subject to the limit of the State's resources and capacity at the time and the need of the nation to enlarge production and speed up development.

In respect of existing undertakings, the process of transfer from private to public ownership should commence after a period of five years. In special cases, a competent body may, after proper examination, decide on an earlier transfer. The first five years should be treated as a period of preparation during which arrangements should be made to take over and run these undertakings efficiently. The progress of transition to public ownership should be controlled so as to avoid dislocation of the economic life in the country. State acquisition of these industries should take place when the excessive margins of profits prevailing in the existing abnormal conditions have declined to a reasonable level in consequence of the fall in prices or under pressure of appropriate legislation or administrative measures.

To secure the efficient development and conduct of public-owned industries, suitable administrative agencies should be set up, e.g., (1) creation of an Economic Civil Service which will furnish industry with executives of different grades, (2) training of requisite industrial cadre, (3) technical training and general education of the workers, (4) organisation of research and information, (5) control of investment and of shares or strategic resources, and (6) intensive and detailed economic surveys.

Departmental control should be confined to questions of policy. The system of statutory corporations should be developed with necessary adaptations to suit Indian conditions.

In private industry the existing system of managing agency should be abolished as early as possible. Private industry will be subject to regulation and control in the interest of national policy in industrial development.

Return on capital will be computed on employed capital, *i.e.* capital plus reserves. Distributed profits will be taxed at a higher rate than undistributed profits. A five per cent dividend in terms of employed capital will be the maximum limit for the distribution of profits. After

the date of declaration of the maximum limit, the amount of profits to be transferred to the reserve funds should be limited to such sums as in the opinion of competent authority may be utilised for productive purposes by the industry or industries. Out of the profits earned in any year, the surplus, after setting apart three per cent on employed capital as dividend and another portion to be ear-marked by Government for schemes of social welfare and industrial improvement, will be shared between the workers and the shareholders in the proportion to be fixed by Government—the employer's share not exceeding in any year a third of the basic wage or the national minimum, whichever is higher.

All resources available for investment should be subject to the control of the State. The State should set up finance corporations. Banking and insurance should be nationalised.

Stable and friendly relations between labour and capital should be maintained through profit-sharing and increasing association of labour with management in industry and the establishment of works committees in each undertaking, regional labour boards with adequate and elected representation of labour in each industry, settlement of all disputes through conciliation, arbitration and adjudication and guarantee of a minimum wage, proper housing and insurance against old age, sickness and unemployment.

To have a balanced progressive economy in which regulated distribution will form an integral part of a comprehensive economic plan for the country and to control wages and the prices of agricultural and manufactured commodities, distribution of consumer goods should be co-operatively organised. A multi-purpose co-operative society with branches for agricultural producers, consumers and small industries should be set up to develop an integrated economy for the village. Co-operative consumers' societies may be organised for a locality or for groups of wage-earners and where possible for salary-earners in establishments of private or state concerns. The State may encourage the growth of the societies in various ways.

Lastly, the Economic Programme Committee suggests that a Central Planning Commission should be appointed to advise and assist Government in implementing the

programme. The nature of the present tax structure, the complexion of the country's foreign trade and the place of foreign capital in the development of the country's economy should also be examined by the Planning Commission, so that each of them might help the development of a free and self-sufficient economy on the lines indicated in the programme.

### APPENDIX III

#### INDIA GOVERNMENT'S INDUSTRIAL POLICY STATEMENT (6th April, 1948)

The Government of India have given careful thought to the economic problems facing the country. The nation has now set itself to establish a social order where justice and equality of opportunity shall be secured to all the people. The immediate objective is to provide educational facilities and health services on a much wider scale, and to promote a rapid rise in the standard of living of the people by exploiting the latent resources of the country, increasing production and offering opportunities to all for employment in the service of the community. For this purpose, careful planning and integrated effort over the whole field of national activity are necessary; and the Government of India propose to establish a National Planning Commission to formulate programmes of development and to secure their execution. The present statement, however, confines itself to Government's policy in the industrial field.

Any improvement in the economic conditions of the country postulates an increase in national wealth. A mere redistribution of existing wealth would make no essential difference to the people and would merely mean the distribution of poverty. A dynamic national policy must, therefore, be directed to a continuous increase in production by all possible means, side by side with measures to secure its equitable distribution. In the present state of the nation's economy, when the mass of the people are below the sub-

sistence level, the emphasis should be on the expansion of production, both agricultural and industrial; and in particular on the production of capital equipment, of goods satisfying the basic needs of the people, and of commodities the export of which will increase earnings of foreign exchange.

The problem of state participation in industry and the conditions on which private enterprise should be allowed to operate must be judged in this context. There can be no doubt that the State must play a progressively active role in the development of industries, but ability to achieve the main objectives should determine the immediate extent of state responsibility and the limits to private enterprise.

Under the present conditions, the mechanism and the resources of the State may not permit it to function forthwith in industry as widely as may be desirable. The Government of India are taking steps to remedy the situation; in particular, they are considering steps to create a body of men trained in business methods and management. They feel, however, that for some time to come, the State could contribute more quickly to the increase of national wealth by expanding its present activities wherever it is already operating and by concentrating on new units of production in other fields, rather than on acquiring and running existing units. Meanwhile, private enterprise, properly directed and regulated, has a valuable role to play.

On these considerations Government have decided that the manufacture of arms and ammunition, the production and control of atomic energy, and the ownership and management of railway transport should be the exclusive monopoly of the Central Government. Further, in any emergency, Government would always have the power to take over any industry vital for national defence.

In the case of the following industries, the State, which, in this context, includes Central, Provincial and States' Governments and other public authorities like municipal corporations, will be exclusively responsible for the establishment of new undertakings, except where, in the national interest, the State itself finds it necessary to secure the co-operation of private enterprise, subject to such control and regulation as the Central Government may prescribe:

(1) Coal (the Indian Coal-fields Committee's proposals will be generally followed), (2) iron and steel, (3) aircraft manufacture, (4) ship-building, (5) manufacture of telephone, telegraph and wireless apparatus, excluding radio receiving sets, (6) mineral oils.

While the inherent right of the State to acquire any existing industrial undertaking will always remain, and will be exercised whenever the public interest requires it, Government have decided to let existing undertakings in these fields develop for a period of ten years, during which they will be allowed all facilities for efficient working and reasonable expansion. At the end of this period, the whole matter will be reviewed and a decision taken in the light of circumstances obtaining at the time. If it is decided that the State should acquire any unit, the fundamental rights guaranteed by the Constitution will be observed and compensation will be awarded on a fair and equitable basis.

Management of state enterprises will, as a rule, be through the medium of public corporations under the statutory control of the Central Government, who will assume such powers as may be necessary to ensure this.

The Government of India have recently promulgated a measure for the control by the State of the generation and distribution of electric power. This industry will continue to be regulated in terms of this measure.

The rest of the industrial field will normally be open to private enterprise, individual as well as co-operative. The State will also progressively participate in this field; nor will it hesitate to intervene whenever the progress of an industry under private enterprise is unsatisfactory. The Central Government have already embarked on enterprises like large river valley developments, which are multi-purpose projects of great magnitude, involving extensive generation of hydro-electric power and irrigation on a vast scale, and are calculated in a comparatively short time to change the entire face of large areas in this country. Projects like the Damodar Valley Scheme, the Kosi Reservoir and the Hirakud Dam are in a class by themselves and can stand comparison with any of the major schemes in America or elsewhere. The Central Government have also undertaken the produc-

tion of fertilizers on a very large scale, and have in view other enterprises like the manufacture of essential drugs, and of synthetic oil from coal. Many provincial and States' Governments are also proceeding on similar lines.

There are certain basic industries of importance, apart from those mentioned [earlier], the planning and regulation of which by the Central Government is necessary in the national interest. The following industries, whose location must be governed by economic factors of all-India import, or which require considerable investment or a high degree of technical skill, will be subject to central regulation and control : salt, automobiles and tractors, prime movers, electric engineering, other heavy machinery, machine tools, heavy chemicals, fertilizers and pharmaceuticals and drugs, electro-chemicals industries, non-ferrous metals, rubber manufactures, power and industrial alcohol, cotton and woollen textiles, cement, sugar, paper and newsprint, air and sea transport, minerals and industries related to defence.

The above list cannot obviously be of an exhaustive nature. The Government of India while retaining the ultimate direction over this field of industry, will consult the Governments of the Provinces and States at all stages and fully associate them in the formulation and execution of plans. Besides these Governments, representatives of industry and labour will also be associated with the Central Government in the Industrial Advisory Council and other bodies which they proposed to establish, as recommended by the Industries Conference.

Cottage and small-scale industries have a very important role in the national economy, offering as they do scope for individual, village or co-operative enterprise, and means for the rehabilitation of displaced persons. Those industries are particularly suited for the better utilisation of local resources and for the achievement of local self-sufficiency in respect of certain types of essential consumer goods like food, cloth and agricultural implements. The healthy expansion of cottage and small-scale industries depends upon a number of factors like the provision of raw materials, cheap power, technical advice, organised marketing of their produce, and, where necessary, safeguards against intensive

competition by large-scale manufacture, as well as on the education of the worker in the use of the best available technique. Most of these fall in the provincial sphere and are receiving the attention of the Governments of the Provinces and the States. The resolution of the Industries Conference has requested the Central Government to investigate how far and in what manner these industries can be co-ordinated and integrated with large-scale industries. The Government of India accept this recommendation. It will be examined, for example, how the textile mill industry can be made complementary to, rather than competitive with the handloom industry, which is the country's largest and best organised cottage industry. In certain other lines of production, like agricultural implements, textile accessories, and parts of machine tools, it should be possible to produce components on a cottage industry scale and assemble these into their final product at a factory. It will also be investigated how far industries at present highly centralised could be decentralised with advantage.

The resolution of the Industries Conference has recommended that Government should establish a Cottage Industries Board for the fostering of small-scale industries. The Government of India accept this recommendation and propose to create suitable machinery to implement it. A cottage and small-scale industries directorate will also be set up within the Directorate-General of Industries and Supplies.

One of the main objectives will be to give a distinctly co-operative bias to this field of industry. During and before the last war, even a predominantly agricultural country like China showed what could be done in this respect, and her mobile industrial co-operative units were of outstanding assistance in her struggle against Japan. The present international situation is likely to lessen to a marked degree our chances of getting capital goods for large-scale industry, and the leeway must be made up by having recourse to small-size industrial co-operatives throughout the country.

Government, however, recognise that their objective, namely, securing the maximum increase in production, will not be realised merely by prescribing the respective spheres of state and private enterprises in industry; it is

equally essential to ensure the fullest co-operation between labour and management and the maintenance of stable and friendly relations between them. A resolution on this subject was unanimously passed by the Industries Conference which was held in December last.

Amongst other things, the resolution states: "The system of remuneration to capital as well as labour must be so devised that while in the interests of the consumers and the primary producers, excessive profits should be prevented by suitable methods of taxation and otherwise, both will share the product of their common effort after making provision for payment of fair wages to labour, a fair return on capital employed in the industry and reasonable reserves for the maintenance and expansion of the undertaking."

Government accept this resolution. They also consider that labour's share of the profits should be on a sliding scale normally varying with production. They propose, in addition to the over-all regulation of industry by the State, to establish machinery for advising on fair wages, fair remuneration for capital and conditions of labour. They will also take steps to associate labour in all matters concerning industrial production.

The machinery which Government propose to set up will function at different levels, Central, regional and unitary. At the Centre, there will be a Central Advisory Council, which will cover the entire field of industry, and will have under it committees for each major industry. These committees may be split up into sub-committees dealing with specific questions relating to the industry, namely, production, industrial relations, wage fixation, and distribution of profits. The regional machinery under the Provincial Governments will be Provincial Advisory Boards which, like the Central Advisory Council, will cover the entire field of industry within the province. They will have under them provincial committees for each major industry. The provincial committees may also be split up into various sub-committees dealing with specific questions relating to production, wage fixation and industrial relations. Below the provincial committees will come the works committees and the production committees attached to each major industrial

establishment.

The works committees and the production committees will be bi-partite in character, consisting of representatives of employers and workers only, in equal numbers. All other committees will be tripartite, with representatives of Government, employers and workers.

Government hope that the machinery proposed will substantially reduce the volume of industrial disputes. In the case of unresolved conflicts, Government trust that management and labour will, in their own interests and in the larger interests of the country, agree to settle them through recognised channels of conciliation and arbitration, which will be provided by Government. The industrial relations machinery, both at the Centre and in the Provinces, is being strengthened, and permanent industrial tribunals are being established for dealing with major disputes.

The Government of India are also taking special steps to improve industrial housing as quickly as possible. A scheme for the construction of one million workers' houses in ten years is under contemplation, and a Housing Board is being constituted for this purpose. The cost will be shared in suitable proportions between Government, employers and labour, the share of labour being recovered in the form of a reasonable rent.

In order to ensure quick decisions on the various matters arising out of the Industrial Truce resolution, Government are appointing a special officer.

The Government of India agree with the view of the Industries Conference that, while it should be recognised that participation of foreign capital and enterprise, particularly as regards industrial technique and knowledge, will be of value to the rapid industrialisation of the country, it is necessary that the conditions under which they may participate in Indian industry should be carefully regulated in the national interest.

Suitable legislation will be introduced for this purpose, and such legislation will provide for the scrutiny and approval by the Central Government of every individual case of participation of foreign capital and management in industry. It will provide that, as a rule, the major interest in ownership

and effective control should always be in Indian hands, but power will be taken to deal with exceptional cases in a manner calculated to serve the national interest. In all cases, however, the training of suitable Indian personnel for the purpose of eventually replacing foreign experts will be insisted upon.

The Government of India are fully alive to their direct responsibility for the development of those industries which they have found necessary to reserve exclusively for state enterprise. They are equally ready to extend their assistance to private or co-operative enterprise in the rest of the industrial field, and in particular, by removing transport difficulties and by facilitating the import of essential raw materials to the maximum possible extent.

The tariff policy of Government will be designed to prevent unfair foreign competition and to promote the utilisation of India's resources without imposing unjustifiable burden on the consumer. The system of taxation will be reviewed and readjusted where necessary to encourage saving and productive investment and to prevent undue concentration of wealth in a small section of the population.

The Government of India hope that this elucidation of their intentions on the fundamental aspects of industrial policy will remove all misapprehensions, and they are confident that a joint and intensive effort will now be made by labour, capital and the general public, which will pave the way for the rapid industrialisation of the country.

#### APPENDIX IV

### BIRLA PLAN FOR INDUSTRIAL DEVELOPMENT

(25th May, 1948)

A five-year plan for the industrial and economic development of India, involving a total expenditure of Rs. 1,220 crores, which will bring in a national income of Rs. 1,101 crores at the end of the period, is suggested by Mr G. D. Birla in a pamphlet, issued towards the end of May, 1948. A total investment of nearly Rs. 1,220 crores in five years comes to Rs. 244 crores per year, which is much less than what is recommended in the Bombay Plan. During 1943-46, in three years, India made a total public investment of Rs. 1,950 crores, or Rs. 650 crores on an average per year, without any special effort. Our present annual income is expected to be of the order of Rs. 5,280 crores and thus the investment proposed is only 4.6 per cent of the national income, which is quite a modest figure.

Out of Rs. 1,220 crores proposed in five years, about 62 per cent is to be invested by Government and only 38 per cent by private enterprise. But in the last resort, the whole of it may have to come out of the pocket of the private investor.

The estimates of the new expenditure work out as follows:  
Agriculture—Rs. 345 crores.

Aforestation—Rs. 7 crores.

Industry and Mining—Rs. 428 crores.

Power—Rs. 50 crores.

Transport and Communications—Rs. 260 crores.

Social—Rs. 125 crores.

Tourist traffic—Rs. 5 crores.

India shall have to import capital equipment from abroad to execute the plan and for this purpose foreign currency will be needed. The need estimated comes to about Rs. 517 crores. Our sterling resources, for the time being, are uncertain since we do not know how much of it will be left to us for immediate use, and for the present we should treat the balances only as a reserve. For foreign

exchange, we should depend to a larger extent on our export surpluses. Our existing exchange resources will have to be used very sparingly. It may be possible to raise a loan in America. Eventually, we shall have to rely more on indigenous production of capital goods requirements too.

Rs. 517 crores—out of a total investment of Rs. 1,220 crores—which will have to be spent in foreign countries to import the necessary equipment for construction of various industries visualized in the plan, is not a big figure. The average for each year comes to Rs. 103 crores. It is true that the position of deliveries from England is not at all hopeful and yet to purchase goods worth Rs. 103 crores annually from foreign countries, especially America, is a very modest task. Proper planning is necessary because, apart from equipment, India will need large amounts of steel and cement, which, it is hoped, will be available in India itself. It will, however, be necessary to make a proper inventory of India's specific needs and then, if necessary, send a purchase mission to America to arrange for plant.

The question of industrial peace and co-operation between labour and capital is a *sine qua non* of all future progress. Workers have to be educated to realize that industrial peace is as much in their interest as anyone else's. Higher wages, better houses, better working conditions and all other amenities can come only out of hard work and increased production and not through strikes and disputes. Indian labour needs good, adequate and balanced food and comfortable living. A fair standard of all their needs has to be estimated and wages fixed at that level. Once a policy is laid down, the State thereafter should not allow either the employer or the worker to deviate from it.

The plan stresses the need to work on three shifts if immediate expansion of production is to be achieved.

The Bombay Plan (of which Mr Birla was one of the signatories) had suggested an investment of Rs. 1,400 crores in the first five years, based on old prices. Based on new prices, it would come to about Rs. 4,220 crores against the present suggestion of only Rs. 1,220 crores.

Particular emphasis is laid on a correct monetary policy

which will be such as to foster confidence, promote saving and also encourage reinvestment. If such a policy is adopted no difficulty will be experienced in finding Rs. 1,220 crores in five years.

The preface to the plan emphasizes that for any constructive work to be planned and executed, the first essential is peace and security.

We shall have, therefore, to maintain our army expenditure at a level that would ensure perfect peace at home and abroad. Without public co-operation, however, peace could not be preserved by the police or the army. And public co-operation will depend substantially on the psychology of the people that Government policy can create. In a democracy, public confidence in the Government is very essential. If the composition of the Government in the provinces as well as at the Centre cannot command complete confidence in the integrity as well as in the ability of its Ministers, it fails to get public co-operation and cannot survive long. And continuity being an essential factor in any long-term planning, a stable Government is the first desideratum. The criticism often heard at present, in public as well as private circles, is in some cases against integrity, in others against ability, of some of the provincial Ministers. It is ominous. To take it lightly is unwise.

The plan warns against any tampering with the budget, the currency or the credit of the country. All novel experiments should be tabooed. Finance is a tender plant which cannot stand the slightest atmospheric disturbance.

Emphasizing the need to maintain confidence in business and financial circles it is asserted that the worst method to attract private capital is to deliver unbalanced speeches and make amateurish experiments in financial and labour fields. If pure socialism is the aim, then the whole plan has to take a different shape. Management and ownership being purely a state affair, no reassurance to private enterprise is needed.

On the other hand, if even a part of the task is to be performed by private enterprise, and modified and controlled capitalism is to be given a chance, then Government cannot afford to scare business; and definite action has to be taken to attract its co-operation. While not suggesting the

adoption of the 19th century *laissez-faire* policy in the present state of India, co-operation from every quarter, and not the least from the business community, is extremely important for success and its importance should not be underrated.

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